Orion New Zealand Limited
Annual Report FY19

“The lights are great – they give us extra practice time.”

Nick Ager
Coach and father of the young player on the cover.

Cover: Selwyn United Football Club young players training at night, thanks to lighting in Foster Park, Rolleston.

Highlights

Financial

$186m
electricity distribution revenue
↑ $4m

$64m
network operating expenditure
↑ $6m

$48m
profit after tax
↓ $5m

$53m
fully-imputed dividends
↓ $2m

$78m
group capital expenditure
↓ $2m

$303m
borrowings
↑ $28m

$1,209m
group assets
↑ $27m

Network

204,000
customer connections
↑ 3,000

3,317
gigawatt hours of electricity delivered
↑ 8

587MW
network maximum demand
↓ 46MW

74
minutes of network outages per customer
↓ 5

Chair and Chief Executive's report

Jane Taylor
Chair

Rob Jamieson
Chief Executive

Every moment of every day, our 204,000 customers rely on electricity delivered by the Orion network – across 8,000 square kilometres in Christchurch, Banks Peninsula and the Selwyn District.

Our role is to support our community's aspirations for a liveable region, with strong connected communities, a healthy environment and a prosperous economy.

It's an exciting time as we prepare for a future where electricity will be more important than ever.

We are in a strong position to deliver what our community wants of us in the future

Our customers have high expectations of Orion. They want reliability, resilience, safety and excellent communication, whether they are living or running a business in urban or rural areas. With a thorough understanding of our community's needs and expectations, we are actively positioning Orion for a sustainable future.

This mindset has influenced much of our work during the year as we prepare for a future in which our community can continue to flourish.

2019 was a year of solid performance. A mild winter meant lower demand on our network, which was reflected in lower than budgeted delivery revenue. Against this backdrop, we welcomed more than 3,000 new customers for the fourth consecutive year.

Here we set out our vision and journey

Our overall vision is bold and far-sighted. This year we have set ourselves ambitious targets, which are embodied in Our Powerful Future, an aspirational programme we began in October to position Orion for continued success in serving our stakeholders through to 2025 and beyond. This future includes leading sustainability by leveraging our strengths while growing our industry's people capability even further. It encompasses ensuring our network is future-ready and continuing to build trust within our community.

We began this journey with a rigorous review of what our community wants from us and embodied this in our latest annual Asset Management Plan (AMP). This document sets a clear direction for Orion at a time when our region is experiencing sustained growth in an era of rapid change in electricity technology. Our new AMP details how we plan to extend, maintain and develop our electricity distribution network over the next decade, embracing change to meet the evolving needs of our community.

It is the start of an exciting new era for Orion as we adapt and grow to serve Canterbury's changing energy needs and advance the long term sustainability of our region.

Since 1 April 2014 we have been operating under a Customised Price-Quality Path (CPP), which was put in place by the Commerce Commission for five years to assist us to cover the costs of our earthquake recovery programme. This year we transition to a Default Price-Quality Path (DPP), which is based on the last year of our CPP. During 2019 the Commission will reset the DPP that will apply from 1 April 2020 to 31 March 2025. The DPP will determine the revenue we can collect from our customers and the quality standards we are required to meet during those five years. We will continue to engage with the Commission throughout the reset process to ensure we meet our community's needs.

Gearing up for the future

We are gearing up for new technology that is creating greater choice and opportunities for our customers.

People are seeking more flexibility about how they connect and use our network. Our role is to ensure we have the technology that gives our customers options and choices, and the ability to exercise more control over their energy use.

It is just the beginning. In the future, we will see huge changes of critical importance for the longer term future of our business. We are excited about the challenges that lie ahead.

“Powering up the Christchurch Town Hall helps bring events to life.”

Chris Wallace
Vbase General Manager

Orion continues its sustainability journey in earnest. We have appointed our first leader of sustainability whose role is to establish Orion's sustainability roadmap.

We engaged Enviro-Mark Solutions, NZ's leading provider of environmental certification to measure our carbon footprint and help us identify options to reduce it. Recognising the wider issues of regional and national importance, Orion joined the Climate Leaders Coalition, making a commitment to tackle climate change and reduce carbon emissions in New Zealand. Orion is also a founding partner of the Aotearoa Circle, which seeks to deliver on a national ambition for the maintenance and enhancement of our natural capital.

Not only do we have an important role to ensure we are as sustainable as we can be but also to help our community fulfil their sustainability aspirations.

We completed several major projects during the year that support the continued revitalisation of Christchurch, including:

- installing power supply to the new state of the art campus created by Avonside Girls' High School & Shirley Boys' High School. The work is helping to deliver an environment more conducive to learning and will make the combined campus one of the more energy efficient schools in Christchurch
- completing two years' work on The Terrace and promenade created along the Ōtākaro/Avon River to provide service to the myriad of bars and restaurants in this lively area
- providing power supply to the new seven screen, 900 seat Hoyts EntX cinema complex in the central city, the restored Christchurch Town Hall and the much-heralded new central library, Tūranga

We have also completed a number of significant projects to support growth and development in the Selwyn district, including:

- upgrading capacity at our Dunsandel substation to power local milk nutrition company Synlait's new electrode boiler as part of their sustainability strategy
- completing projects in Coalgate and Springston to improve reliability as part of our continuing Rural Township Programme
- installing a new transformer at our Waimakariri substation, increasing the capacity and reliability of the network to the northwest area of Christchurch
- investing $1.5m to upgrade the switchyard and electricity network for the Springston community and wider area, including Banks Peninsula
- completing the installation of electricity supply to lighting and traffic lights supporting NZ Transport Agency's significant Southern Motorway programme
- installing 175 new substation kiosks throughout the region to support general growth

Our Powerful Future

In taking charge of our future, we have set ambitious goals to achieve our aspirations for 2025 and beyond:

- We are among the most trusted organisations in our region
- We are a leader of sustainability in our region
- We are a leading platform operator
- We have transformed industry capability and development in New Zealand

In doing this we are mindful of maintaining our unrelenting focus on our day to day commitment to our customers; to provide a safe, reliable and resilient network.

"Brewing is a precise business - we need reliable power to keep the temperature even, for a good result."

Jamie Tippet
Brewer, Three Boys Brewery

Financial performance

Our financial sustainability benefits our local community – through Orion's ultimate shareholders, the Christchurch City Council and the Selwyn District Council.

We are pleased to have delivered another year of solid financial performance.

Our $48m profit was $2.5m below our Statement of Intent (SOI) target, driven largely by three factors:

- below budget electricity distribution revenue, partly because mild weather meant our volumes were lower than budget
- change in the fair value of interest rate hedges
- below budget profit for Connetics, our contracting subsidiary

These unfavourable impacts were partially offset by lower than budget operating expenditure, mainly due to an absence of significant weather events.

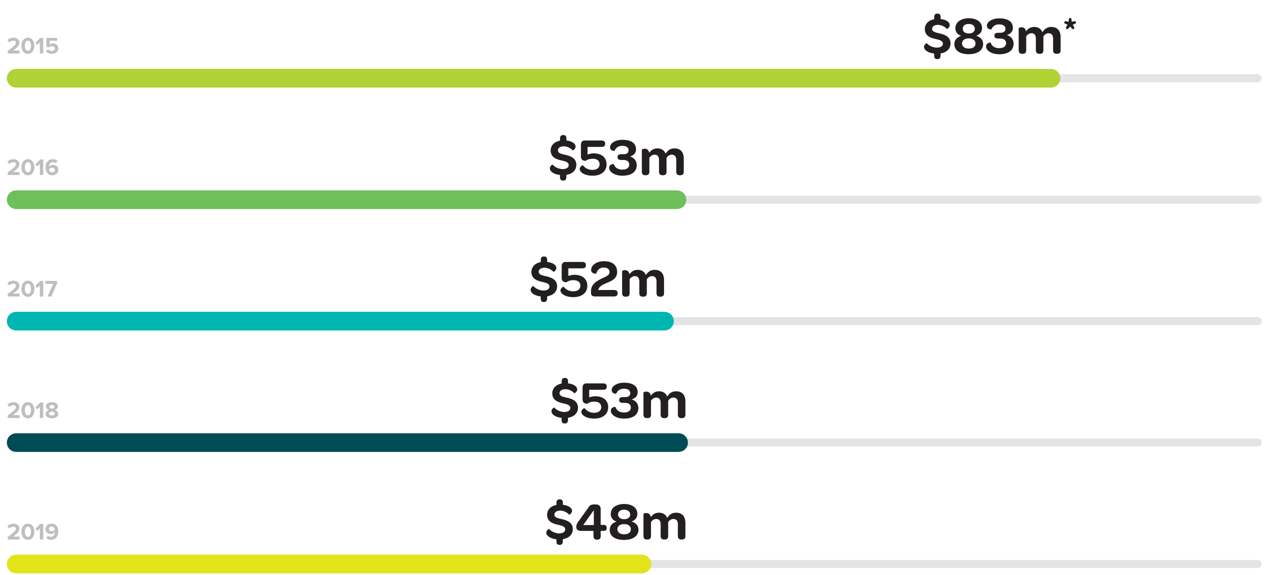
Our result enabled us to pay $53m of fully-imputed dividends to our shareholders this year, in line with our SOI target.

We continue to invest in our network. Our focus on our customer and community needs means our capital expenditure programme remains strong to meet the demands of growth and resilience. We are conservatively geared and our debt levels remain well within prudent levels commensurate with our earnings forecasts and the value of our assets.

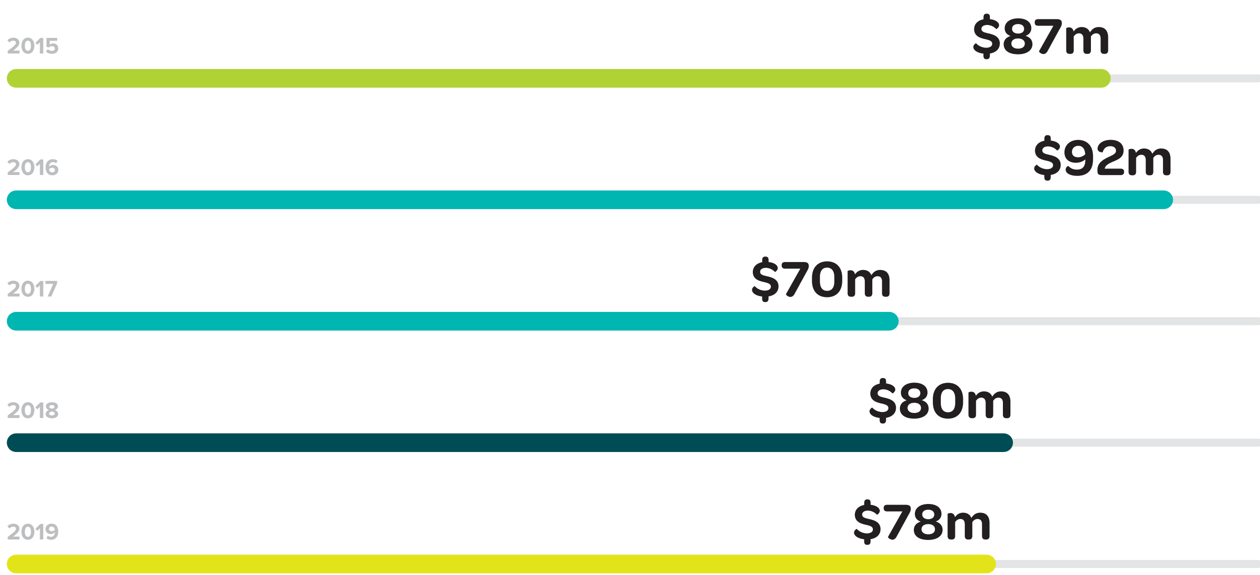
In September 2018, Orion successfully refinanced a bank loan facility by issuing debt in the United States Private Placement market - $100m to repay maturing bank debt and $40m for future capital expenditure and general purposes. This deal has diversified and lengthened the tenor of our borrowings, and reduces our liquidity risk.

Although Connetics had a challenging year in a competitive market it remains an important contributor to the Orion group.

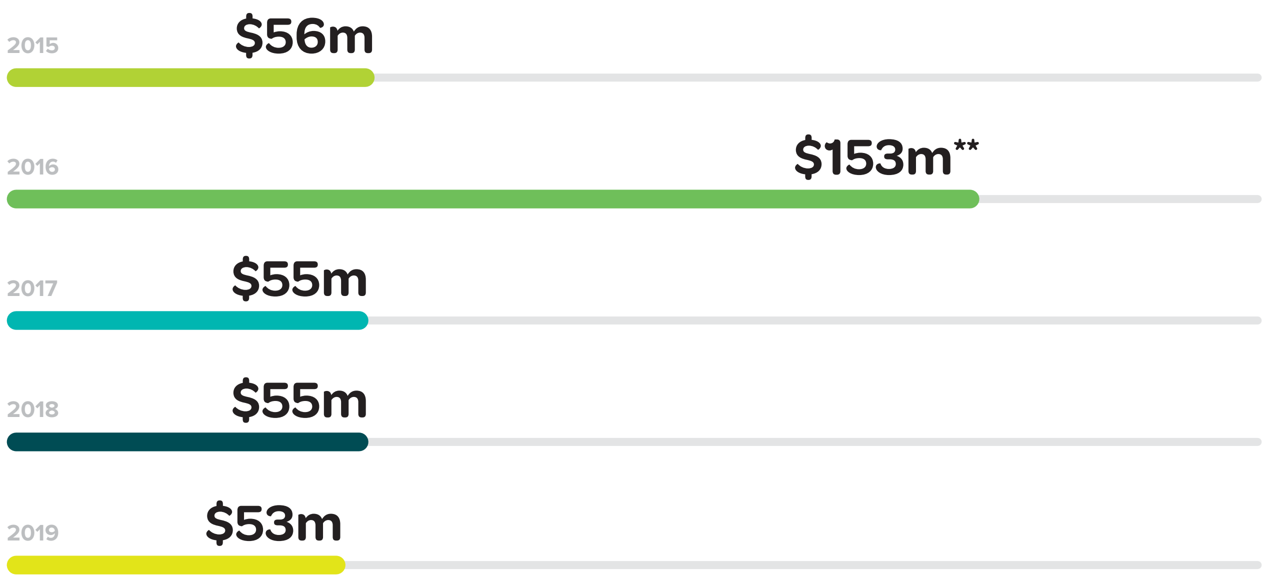
Net profit



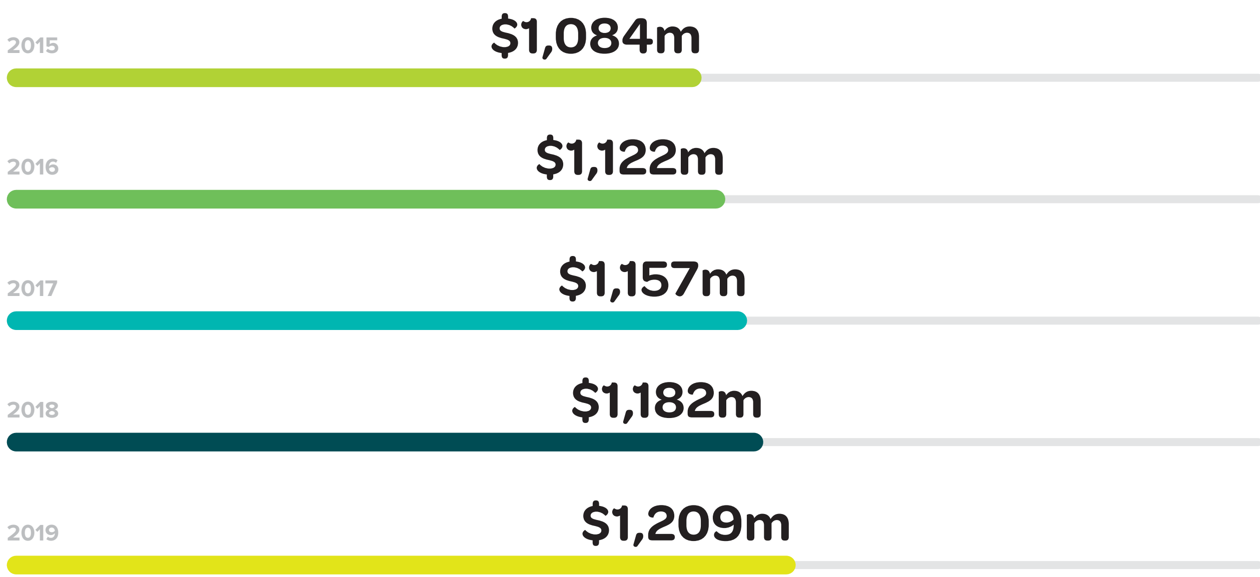
Capital expenditure



Cash distributions to shareholders



Total assets



*2015 net profit includes a $24 million earthquake insurance settlement.

**Includes our $90m share buy-back and a $15m special dividend.

Network maximum demand

587MW

MW	590	618	599	633
Year	2015	2016	2017	2018

Network volumes

3,317GWh

GWh	3,277	3,296	3,227	3,309
Year	2015	2016	2017	2018

Network connections

204k

(000)	191	195	198	201
Year	2015	2016	2017	2018

The power of our customers

Conversations with our customers directly influence what we do now, and the future journey we take together.

We actively sought our customers' views in several forums:

- the **Orion Customer Advisory Panel,** pictured, is an important way for us to canvas community group leaders on energy issues affecting the people they represent
- at our community engagement **focus groups** we spoke with a diverse range of residential customers about proposed network investments and service improvements
- more than 850 people participated in our annual **Residential Customer Perceptions** survey that measures satisfaction with our performance and communications
- we held two **major customer seminars** geared towards future planning
- we had an **Orion stand** at the first EVworld South expo where we asked EV enthusiasts how they want to manage recharging their vehicles
- we implemented new and extended **direct engagement with customers** who have significant Orion works to be undertaken in their neighbourhood

We are pleased to report that by far the majority of our customers are satisfied with Orion's overall performance. The reliability of the network is always their top priority and 97% of residential customers surveyed were satisfied with the reliability of our power supply. In other key findings of our annual survey, 81% agreed that Orion maintains the electricity network well and 76% agreed that when the power goes out, Orion quickly gets onto restoring it.

In late 2018 we appointed a new General Manager, Customer and Stakeholder to further our objectives to connect and collaborate with our customers and community.

Thank you to our stakeholders and customers for taking the time to share your thoughts and contribute to conversations that guide our thinking about the future and improvements to our service. We're listening and we're taking action.

The power of our network

8,000 square kilometres network coverage

11,400 kilometres of lines and cables

350 major business customers with loads from 0.2MVA

50 zone substations

11,500 distribution substations

90,000 Orion power poles

175 new sub-stations built in 2019

Orion's job is to provide a safe, reliable, resilient electricity network for our community. While ensuring we meet daily needs, we are looking ahead and listening to what our customers want from us in the future.

The growing demand on our network continues to stimulate capital investment, and this is forecast to continue. We have experienced growth in the number of customers we serve, particularly the number of residential customers moving into new housing developments in the Selwyn District and western Christchurch. These developments are also progressively expanding our network footprint.

Less emergency work required because of benign winter weather conditions during the year meant the team was able to focus on planning, network maintenance and improvements.

During the year, we completed a restructure of our network teams to support a future that calls for us to have greater understanding of the demands on our network and the ability to operate with greater agility, be more customer responsive, and plan with flexibility for new technology that's opening up a world of options for us and our customers.

In addition to re-scoping existing roles, we established more than six new leadership roles including appointing a Network Strategy and Transformation Manager to champion our network strategic thinking with a focus on new technologies, innovation and continuous improvement.

We initiated a number of ways to improve the efficiency of our day to day operations, including:

- rolling out a new mobile device for our operators. The new iPads have a new app, "Peek", which notifies operators of incoming jobs and provides them with clear instructions and the ability to record the action they have taken
- replacing manually operated line switches with strategically placed remote controlled devices to speed restoration of power and reduce network operator travel distances
- implementing enhancements to our PowerOn network management system to better inform our network controller's everyday decision making
- creating a link between our network management and competency data base that automatically confirms the competency of the recipient of permits for work on our network
- appointing an Operational Improvement Manager

"The new insulation put in by Community Energy Action has made a big difference to the warmth of our home."

Janet and David McGimpsey
Customers

The power of our community

We are at the heart of our community and committed to its ongoing prosperity. Our aim is to make a meaningful positive difference to the lives of people in Central Canterbury.

For more than 20 years we have supported Community Energy Action (CEA), an organisation helping some of the most vulnerable in our community with practical, sustainable energy efficient solutions. The longevity of this relationship highlights its ongoing relevance and success.

Art is an intrinsic part of our vibrant inner city and in June we refurbished the Paul Hartigan *Nebula* neon sculpture on the side of our Armagh St substation, opposite the Margaret Mahy playground. Commissioned by Orion in 2001 the work's vibrant use of light and colour suggests a mini-universe of neuro-electrical activity that brightens this area of the city at night.

Through our involvement with the Canterbury Employers' Chamber of Commerce, we are more aware of the needs of the local business community and the ways we can support their ambitions.

Our sponsorship of grassroots community activity made a tangible difference to the people of South Brighton when we donated a power connection to the Common Ground Collective, a community gathering spot established in 2018. The power connection is more sustainable and means the noisy generators using non-renewable energy are no longer needed.

Orion is now looking at other partnerships to help our community achieve sustainable outcomes.

The power of keeping safe

Ensuring our people can work safely and the community can be secure in their use of electricity in a healthy sustainable environment are priorities for us in all we do.

We are always seeking to improve the ways we do things and to minimise the risk of harm to our people and the public.

This year our work to improve safety outcomes included:

- implementing a new **Quality, Health, Safety and Environment Assurance Programme** and undertaking internal audits of our processes and procedures
- conducting a **fatigue review** to understand how our operators, control centre and contact centre teams manage weariness while working on shifts and when major power outages occur
- identifying, through our **Asbestos Management Programme**, whether this substance is present in any of our buildings to help us manage health risks. We completed an inspection of all Orion owned substations and 91% of customer owned substations, and remediation work is underway
- carrying out an **audit** against our Environmental Management Manual to ensure we are doing what we say we will do
- **installing portable defibrillators** in all 19 of our field response vehicles and training our operators to use them should the need arise. Our people are often working in remote locations and having a defibrillator on board could help to save lives
- running a health and safety **101 refresher** course for everyone in Orion
- promoting our **public safety education and awareness programme** in the safe use of electricity

Orion and Connetics are focused on continuous improvement of our safety management systems, specifically aimed at preventing serious safety events.

We remain committed to keeping safety to the fore.

The power of our people

We work in a highly specialised industry that is going through an era of fundamental change. To respond to the rigours of this challenge, our people must be the best they can be.

Our wellbeing programme is an essential part of what we do and seeks to ensure staff welfare by providing:

- education, tools and resources
- financial subsidies to undertake basic health 'warrant of fitness' tests
- access to professional advice and support
- flexible work practices
- other initiatives designed to encourage healthy practices, and a collaborative, team oriented culture

Our wellbeing programme is directly shaped by what our people tell us. A highlight during the past year was an inspiring talk by mental health advocate Mike King, 2019 New Zealander of the Year.

Wellbeing extends far beyond the very necessary health and safety regime and complements Orion's encouragement of continuous learning and growth. We actively seek to develop our people, and help them to evolve their skills. Our engineering development programme exemplifies our approach to the development of people furthering their career in the industry. The programme attracts a high quality of candidates and we provide a supportive learning environment for up to eight trainees in the business at any one time.

It is an exciting time to lead Orion and we thank our directors and senior leaders for their commitment and energy. We would particularly like to thank Geoff Vazey for his work as Acting Chair during the past year.

Finally, and most importantly, a very special thank you to all of our passionate people, shareholders and to everyone who has contributed to Orion's ongoing success.

Jane Taylor
Chair

Rob Jamieson
Chief Executive

Leadership team

Rob Jamieson
Chief Executive

Rob has been Chief Executive since late 2011. He is also the chair of Connetics Limited. He has worked for Orion since 1994 in various capacities, including as GM Commercial.

David Freeman-Greene
GM Commercial

David leads Orion's commercial team, which manages regulatory matters and compliance, industry relationships, pricing, billing, investment analysis and customer relationships.

Vaughan Hartland
Chief Financial Officer

Vaughan is responsible for Orion's finance function and is a director of Connetics Limited. He is a chartered accountant with Chartered Accountants Australia and New Zealand.

Brendan Kearney
GM Governance & Risk

Brendan heads Orion's governance and risk framework, and is a director of Connetics Limited. He is a chartered accountant with Chartered Accountants Australia and New Zealand.

Craig Kerr
GM Information Solutions

Craig's team delivers information solutions infrastructure, enhancing information systems to support Orion's business processes.

Steve Macdonald
GM Infrastructure

Steve leads the safe construction, maintenance, engineering and operation of Orion's network.

Andy Miller
GM QHSE

Andy manages QHSE governance, advice, support and expertise to the business, our customers and other stakeholders.

Adrienne Sykes
GM People & Capability

Adrienne provides strategic, tactical and operational support and advice across the human resources spectrum, including payroll.

Paul Deavoll
GM Customer & Stakeholder

Paul is responsible for Orion's external relationships including communications, stakeholder and customer relationships, and sustainability.

Board of directors

Jane Taylor
LLB (Hons), LLM, B.For.Sc (Hons), Dip Acc, FCA

Jane was appointed as an Orion director in June 2018 and as board chair in February 2019. She is a professional director with strong commercial, legal, regulatory and governance experience. Jane chairs Landcare Research NZ Limited and Predator Free 2050 Limited, and is a director of Radio NZ Limited, Silver Fern Farms Limited and the External Reporting Board (XRB).

Geoff Vazey
BEng (Hons)

Geoff was appointed as an Orion board director in April 2009 and chaired the board from April 2018 to January 2019. He is a professional director with strong commercial and governance experience, including 20 years involvement in infrastructure at the Ports of Auckland. Geoff is a fellow of the Institution of Professional Engineers New Zealand.

John Austin
BCom, LLB, MBA, CA

John was appointed as an Orion director in May 2014. He is a development banker and an infrastructure specialist and in 2014 returned to New Zealand after heading the Pacific Region Infrastructure Facility Coordination Office of the Asian Development Bank in Sydney. John is a former executive director of the World Bank and was a director of the Asian Development Bank.

Dr Nicola Crauford
BSc, PhD, FAICD, FEngNZ, CPEng, CFInstD

Nicola was appointed as an Orion director in August 2014. She is a director of Watercare Services Limited, and the Environmental Protection Authority. She also chairs GNS Science and is deputy chair of Fire and Emergency New Zealand. She has previously held several senior management roles, including as a member of Transpower's executive team, and is a former director of Genesis Energy.

Bruce Gemmell
BBS, CA (NZ and AU)

Bruce was appointed as an Orion director in September 2016. He is a professional director. Bruce was formerly a senior partner of international accounting firm EY. Bruce is Chancellor of Lincoln University. He is also either a Director or Trustee of the Highlanders rugby franchise, Miramar Consolidated Limited, Planz Consultants Limited, the Christchurch Symphony Orchestra Foundation Trust and The Second Little Pig Was Right Limited. Bruce also consults to corporates on matters of value, capital raising and restructuring.

Jason McDonald
BE Elec (Hons), MBA

Jason was appointed as an Orion director in August 2017. Jason is an independent consultant and he is the chair of Mevo Limited and director of Red Bus Limited. Jason has previously held senior executive positions in Meridian Energy and the former Electricity Corporation of New Zealand, and several governance and advisory roles in the energy sector – including with Arc Innovations, Powershop, RightHouse and WhisperTech.

Audited financial statements

Audited financial statements

The board of directors is pleased to present the audited financial statements of Orion New Zealand Limited and its subsidiaries for the year ended 31 March 2019.

The company's audited financial statements include six audited performance statements:

- financial
- network reliability
- network development
- environment
- health and safety
- community and employment.

Authorised for issue on 7 June 2019.

For and on behalf of the board of directors:

Jane Taylor
Director

Bruce Gemmell
Director

Table of contents

Audited consolidated financial statements - Orion New Zealand Limited - year ended 31 March 2019

Statement of comprehensive income

	Notes	2019 $000	2018 $000
Operating revenues	2	325,621	321,888
Operating expenses	3	(192,012)	(181,322)
Depreciation, amortisation and other impairment expenses	4	(52,999)	(56,515)
Earnings before net interest expense and tax (EBIT)		80,610	84,051
Interest income		109	122
Interest expense	5	(11,627)	(10,442)
Net change in fair value of derivatives income/(expense)	16	(2,980)	303
Profit before income tax		66,112	74,034
Income tax expense	7	(18,249)	(20,734)
Net profit		47,863	53,300
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Gain on revaluation of property, plant and equipment	11	-	-
Deferred tax expense on revaluation of property, plant and equipment	7	-	-
		-	-
Total comprehensive income		47,863	53,300

The accompanying notes form part of these financial statements

Statement of changes in equity

	Notes	Share capital $000	Retained earnings $000	Asset revaluation reserve $000	Total equity $000
Balance as at 1 April 2017		105,000	446,851	120,890	672,741
Net profit		-	53,300	-	53,300
Other comprehensive income		-	-	-	-
Total comprehensive income		-	53,300	-	53,300
Transfers between reserves:					
Realised gain on disposal		-	220	(220)	-
Deferred tax on realised gain		-	(62)	62	-
Dividends paid		-	(55,000)	-	(55,000)
Balance as at 31 March 2018		105,000	445,309	120,732	671,041
Net profit		-	47,863	-	47,863
Other comprehensive income		-	-	-	-
Total comprehensive income		-	47,863	-	47,863
Transfers between reserves:					
Realised gain on disposal		-	390	(390)	-
Deferred tax on realised gain		-	(109)	109	-
Dividends paid		-	(53,000)	-	(53,000)
Balance as at 31 March 2019	17	105,000	440,453	120,451	665,904

Audited consolidated financial statements - Orion New Zealand Limited - year ended 31 March 2019

Statement of financial position

	Notes	2019 $000	2018 $000
Current assets			
Cash and cash equivalents		1,828	1,694
Trade and other receivables	8	13,865	13,427
Inventories	9	8,964	8,407
Prepayments		2,689	2,180
Total current assets		27,346	25,708
Non current assets			
Prepayments		579	234
Goodwill		250	250
Intangible assets	10	3,096	3,491
Property, plant and equipment	11	1,177,293	1,151,685
Interest rate swaps		-	187
Total non current assets		1,181,218	1,155,847
Total assets		1,208,564	1,181,555
Current liabilities			
Trade and other payables	12	33,825	31,450
Borrowings	15	1,080	53,675
Income tax	.7	6,436	5,924
Employee entitlements	13	7,655	7,134
Provisions	14	-	407
Interest rate swaps	16	191	897
Total current liabilities		49,187	99,487
Non current liabilities			
Borrowings	15	301,620	221,233
Employee entitlements	13	1,881	1,572
Interest rate swaps	16	4,133	635
Deferred tax	7	185,839	187,587
Total non current liabilities		493,473	411,027
Shareholders' equity		665,904	671,041
Total liabilities and equity		1,208,564	1,181,555

Statement of cash flows

	2019 $000	2018 $000
Cash flows from operating activities		
Receipts from customers	322,637	323,204
Interest received	109	122
Payments to suppliers and employees	(194,162)	(182,402)
Payments for interest and other finance costs	(12,042)	(11,090)
Payments for income tax	(19,486)	(20,595)
Net cash provided from operating activities	97,056	109,239
Cash flows from investing activities		
Proceeds from the sale of property, plant and equipment	500	1,961
Proceeds from sale of investment	218	-
Payments for property, plant and equipment	(72,232)	(79,318)
Payments for intangible assets	(201)	(1,271)
Net cash used in investing activities	(71,715)	(78,628)
Cash flows from financing activities		
Proceeds from bank loans	-	110,000
Proceeds from US Private Placement notes	140,000	-
Repayment of bank loans	(111,100)	(83,300)
Repayment of finance leases	(1,107)	(1,007)
Dividends paid	(53,000)	(55,000)
Net cash used in financing activities	(25,207)	(29,307)
Net increase in cash and cash equivalents	134	1,304
Summary		
Cash and cash equivalents at beginning of year	1,694	390
Net increase in cash and cash equivalents	134	1,304
Cash and cash equivalents at end of year	1,828	1,694

Statement of cash flows continued

	2019 $000	2018 $000
Reconciliation of net profit to net cash provided from operating activities		
Net profit	47,863	53,300
Adjustments		
Depreciation, amortisation and impairment of property, plant and equipment	52,999	56,515
Internal costs allocated to property, plant and equipment and intangible assets	(2,607)	(2,607)
Gain on disposal of investment	(218)	-
Change in fair value of derivatives	2,980	(303)
Increase/(decrease) in deferred tax	(1,748)	473
Other	(202)	(5)
	51,204	54,073
(Increase)/decrease in assets		
Trade and other receivables	(1,338)	87
Inventories	(575)	(533)
Prepayments	(854)	(252)
Increase/(decrease) in liabilities		
Trade and other payables	(179)	2,347
Employee entitlements	830	146
Income tax	512	(336)
Provisions	(407)	407
	(2,011)	1,866
Net cash provided from operating activities	97,056	109,239

Notes to the financial statements

1. Statement of accounting policies

Corporate information

Orion New Zealand Limited (the company) is a for-profit company incorporated in New Zealand under the Companies Act 1993 and the Energy Companies Act 1992. The group consists of the company and its subsidiaries.

The group primarily operates in one segment – it owns and operates the electricity distribution network in Christchurch and central Canterbury.

Statement of compliance

The financial statements comply with the Companies Act 1993 and section 44 of the Energy Companies Act 1992. They also comply with the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), and with International Financial Reporting Standards.

Basis of financial statement preparation

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). For the purpose of complying with NZ GAAP, the group is a for-profit entity. The financial statements have been prepared on the basis of historical cost, except for certain financial instruments, land and buildings, and the electricity distribution network, which have been measured at fair value.

The financial statements are presented in New Zealand dollars, rounded to the nearest thousand.

Significant judgements, estimates and assumptions

In applying the accounting policies, the group has made the following judgements, estimates and assumptions that have the most significant impact on the amounts recognised in these financial statements. The group regularly reviews these estimates and assumptions. Actual results may differ from the group's estimates and assumptions.

Electricity delivery revenue

The company initially invoices electricity retailers monthly for electricity delivery services on the basis of an estimation of usage, later adjusted for (more accurate) metering data when it becomes available from the electricity wholesale market and from electricity retailers. The company has made an allowance in revenue and in current assets/liabilities for estimated amounts under/over charged during the reporting period. Because final metering data is not available for up to 12 months after the initial invoices to customers, the final amounts payable or receivable may vary from that initially invoiced.

Electricity distribution network valuation

The company owns and operates an extensive integrated electricity distribution network in Christchurch and central Canterbury, comprising large numbers of individual network asset components.

The company values its electricity distribution network on a discounted cash flow basis. The company has adopted assumptions and estimates in its discounted cash flow valuation, including the amounts and timing of future cash flows and the relevant discount rate.

The Commerce Commission has authorised the company to implement specific network delivery price increases for the five years commencing 1 April 2014. The Commission has also decided how it will set the company's price limits for the year commencing 1 April 2019. There is less certainty in forecasting the company's future revenue cash flows from 1 April 2020 as the company enters the Commission's next Default Price Path (DPP) regime. The DPP will determine the allowable revenues and reliability limits that will apply from 1 April 2020 to 31 March 2025.

The company acquires certain electricity distribution assets for less than their replacement cost, sometimes at nil cash cost. The non-cash portions of these asset acquisitions are valued at nil on acquisition because they are not recognised under the regulatory price control regime and therefore these assets do not generate additional future cash inflows.

The group estimates and eliminates intra-group profits in new electricity distribution network assets.

Capitalisation of costs and impairment

The group makes judgements about whether costs incurred should be capitalised or expensed. The group assesses whether individual assets or groups of related assets (which generate cash flows independently) are impaired by estimating the future cash flows that those assets are expected to generate. The group applies assumptions and estimates when assessing future cash flows and appropriate discount rates.

Other areas of judgement

Other areas of judgement include estimating: useful lives of assets, provisions for doubtful debts, unrecoverable work in progress, provisions for employee benefits, revaluation of interest rate swaps, income tax, deferred tax, and network reliability (SAIDI/SAIFI) measures.

Significant accounting policies

The following significant accounting policies have been applied consistently to all periods presented in these financial statements:

(a) Basis of consolidation

A subsidiary is an entity that is directly or indirectly controlled by the company.

The consolidated financial statements are prepared by combining the financial statements of all group entities for the same reporting period, using consistent accounting policies. All intra-group balances and transactions, including unrealised profits arising within the group, are eliminated in full.

(b) Revenue recognition

Revenues from contracts with customers primarily come from the provision of electricity delivery services, customer capital contributions, contracting services and the sale of goods and services.

Electricity delivery service revenue relates to the provision of electricity distribution services to both electricity retailers and directly contracted customers. Electricity retailer delivery services are performed on a daily basis and considered as a series of distinct services provided over time. Prices are regulated and retailers are charged through a combination of fixed charges and variable charges based on the quantities delivered. Revenue is recognised over time using an output method based on the actual delivery services provided on a daily basis.

In applying NZ IFRS 15 to directly contracted customers, the group has determined that the individual construction contracts and individual delivery service agreements were negotiated as a package with a single commercial objective, to provide the required delivery capacity to the customer. The performance obligation has been assessed as being satisfied over time based on the duration of the contractual arrangement. The contract term is the period during which the parties have present and enforceable rights and obligations. A term of ten years has been determined based on the requirements of the contract and the group's business practice. The transaction price includes customer contributions and delivery charges based on an estimate of quantities delivered. Revenue is recognised over time based on an output method, as the performance obligation is satisfied on a straight line basis over the term of the contract.

The adoption of NZ IFRS 15 results in a change in recognition for capital contributions received from directly contracted customers. Capital contributions have previously been recognised when construction has been completed. The transition impact of this change in revenue recognition policy has been assessed and is not material. No changes have been made to opening retained earnings, current or prior year revenue recognised as a result of the change in policy.

The group derives contracting service revenue from the construction and maintenance of overhead and underground lines for the delivery of utility and infrastructure services across New Zealand. The contracts are typically determined to have one single performance obligation which is integrated and is fulfilled over time.

However some contracts can be entered into for a construction job including the supply of significant materials. In this case the group will identify the multiple performance obligations and allocate the total transaction price across each performance obligation based on stand-alone selling prices.

The transaction price is normally fixed at the start of the project. However changes to job scope and bonuses or penalties, based on performance criteria, result in elements of variable consideration.

Revenue from contracting services where the output is easily measurable is recognised on the output method by reference to the direct measurements of the value to the customer of the goods or services transferred to date relative to the remaining goods or services promised under the contract. The output method is also used for maintenance contracts, where regular maintenance services are provided to a customer at regular intervals.

Notes to the financial statements continued

Revenue from all other contracting services is recognised on the measured input by reference to recoverable costs incurred during the financial year plus the percentage of forecast profit earned. Percentage of fees earned is measured by the proportion that costs incurred to date bear to the estimated total costs of the contract.

The group derives revenue from supply and logistics services which require it to provide either a) a specified quantity of distinct goods or services or b) to make available an undefined quantity of goods or services over the duration of the contract period. There is typically one performance obligation (sale of goods). The contractual arrangement includes a requirement for the group to hold a certain level of inventory for a customer in which case there are two performance obligations (sale of goods and inventory/storage service). Revenue from the supply of goods is recognised at the point in time when sales are invoiced on despatch which is when the control of the goods has transferred to the buyer. Inventory/storage service recognises revenue over time on a straight-line basis.

(c) Capital contributions

Customer contribution revenue relates to contributions received from customers (other than delivery service customers who are directly contracted) towards the cost of new connections and network extensions. The customers supply of electricity is contracted separately, interposed through a retailer, and is therefore not considered to impact the assessment of the customer or performance obligations of the connection contracts. Pricing is fixed and contributions are paid in advance for new connections. Capital contributions are recognised as revenue at the point in time of livening the connection to the network. Capital contributions that are refundable to customers are treated as a contract liability until refunded or applied.

The group also receives capital contributions from customers towards the relocation of existing assets and the construction of assets specific to that customer. Revenue is recognised over time on a contractual milestone basis.

The group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the group does not adjust any of the transaction prices for the time value of money, unless it is specifically provided for in the construction contract.

Distribution assets constructed by electricity users and transferred to the group below their full cost are recognised as revenue at their deemed fair value. The fair values of these vested assets are nil as the Commerce Commission regulations prevent the group receiving a return on the vested assets received.

(d) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (an asset that takes a substantial period of time to get ready for intended sale or use and is of significant cost) are capitalised as part of the cost of that asset. All other borrowing costs are expensed in the period in which they occur.

(e) Income tax

Income tax expense comprises current tax and deferred tax.

Current tax is the income tax payable based on the taxable profit for the current year, plus adjustments to income tax payable for prior years. Current tax is calculated using rates that have been enacted or substantively enacted by balance date.

Deferred tax is recognised on temporary differences between the carrying values of assets and liabilities and the equivalent amounts used for taxation purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available, against which the deductible temporary differences or tax losses can be utilised. Deferred tax is calculated at the tax rates that are expected to apply in the period when the temporary differences will reverse.

Current tax and deferred tax are charged or credited to profit or loss. When deferred tax relates to items charged or credited to other comprehensive income, then deferred tax is recognised in other comprehensive income.

(f) Financial instruments

From 1 April 2018, the group classified its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income (OCI) or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the group's business model for managing the financial assets and the contractual terms of the cash flows.

Notes to the financial statements continued

All financial instruments are initially recognised at fair value plus directly attributable transaction costs where applicable.

Subsequent measurement of debt instruments depends on the group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the group classifies its debt instruments:

- amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are recognised in the statement of profit or loss.
- fair value through other comprehensive income (FVOCI): Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses and interest income which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method.
- fair value through profit or loss (FVPL): Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss in the period in which it arises.

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within 30 days and therefore are all classified as current. Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method, less impairment.

Financial liabilities at amortised cost consist of trade and other payables and borrowings. Financial liabilities at amortised cost are measured using the effective interest rate method. Due to their short term nature, trade and other payables are not discounted.

The group has not designated any derivatives as hedges for financial reporting purposes. Derivatives are subsequently measured at fair value, with movements recognised in profit or loss. The fair value of derivatives is determined, pursuant to NZ IFRS 13 – Fair Value Measurement (Level 2), using valuation techniques and models where all significant inputs are observable. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative, and they are only offset against each other if the group has a legal right of offset.

The group applies the NZ IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets. The expected loss rates are based on historical experience, external indicators and forward looking information. There have been no changes to the initial or subsequent measurement of financial assets or liabilities as a result of adopting NZ IFRS 9.

(g) Inventories

Inventories are valued at the lower of cost or net realisable value. Net realisable value is the amount inventories are expected to realise in the ordinary course of business. Individual stock items are valued on a weighted average cost basis.

(h) Property, plant and equipment

Property, plant and equipment acquisitions are initially measured at cost.

Land and buildings are measured at fair value, based on periodic independent valuations prepared by external valuers, which are based on comparable market sales, discounted cash flows or capitalisation of net income (as appropriate), less subsequent depreciation. Fair value is reviewed at the end of each reporting period to assess whether carrying value is materially different to fair value.

Notes to the financial statements continued

The electricity distribution network is measured at fair value, based on periodic independent valuations prepared by an external valuer, which are based on a discounted cash flow methodology. Fair value is reviewed at the end of each reporting period to assess whether the carrying value is materially different to fair value.

Any revaluation increase arising on the revaluation of land and buildings and the electricity distribution network is recorded in other comprehensive income and credited to the asset revaluation reserve in equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. A revaluation decrease is charged as an expense in profit or loss to the extent that is exceeds the balance, if any, held in the asset revaluation reserve from previous revaluations of that asset.

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land. Depreciation on revalued buildings and the electricity distribution network is charged to profit or loss.

Other plant and equipment and leasehold improvements are recognised at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. The cost of self-constructed assets includes the cost of materials and direct labour and an allowance for overheads.

Depreciation is calculated on a straight-line basis to write off the net cost, or other revalued amount of each asset, over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period.

The main bases for the calculation of depreciation are periods not exceeding:

	Years		Years
Electricity distribution network	60	Cars and vans	5
Buildings structures	70	Trucks	10
Building services	30	Plant and equipment	10
Building fit-out	20	Computer equipment	3

Residual values for an item of property, plant and equipment are reviewed, and adjusted if appropriate, at the end of each reporting period.

The carrying amount for an item of property, plant and equipment is written down immediately to its recoverable amount if the asset's carrying value is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These gains and losses are included in profit or loss.

(i) Impairment of assets

The carrying amounts of the group's assets, other than inventory, investment property and deferred tax assets, are reviewed at each balance date to determine whether there is any indication of impairment. If any such indication exists for an asset, the asset's recoverable amount is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent of other assets, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs. A cash-generating unit is defined as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

The recoverable amounts are the higher of fair value (less costs to sell) or value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

Goodwill is tested for impairment annually, and whenever there is an indication that it may be impaired. An impairment of goodwill is not subsequently reversed.

Notes to the financial statements continued

If a revalued asset is determined to be impaired, then the impairment is firstly applied against the revaluation reserve related to that asset, with any remaining impairment loss expensed in profit or loss. If the impairment loss is subsequently reversed, the reversal is firstly applied to profit or loss to the extent of previously expensed impairment losses relating to that asset, with any further increase taken to the revaluation reserve.

For assets which are not revalued, an impairment loss is expensed immediately in profit or loss. If an impairment loss is subsequently reversed, the carrying value of the asset is stated at not more than what its carrying value would have been had the earlier impairment not occurred.

(j) Leased assets and lease liabilities

Leases are classified as finance leases whenever the lease terms transfer substantially all of the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease receipts are recognised as revenue on a straight-line basis over the lease term.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

Finance leases payments are allocated between expense and reduction of the lease liability over the term of the lease. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the group will obtain ownership by the end of the lease term.

(k) New accounting standards and interpretations

The group changed its accounting policies following the adoption of NZ IFRS 9 and NZ IFRS 15. No other new accounting standards or interpretations that became effective for the period had a material impact on the group.

NZ IFRS 15, Revenue from Contracts with Customers, became effective on 1 April 2018. The group has adopted NZ IFRS 15 using the retrospective approach. The group has performed an assessment of its contracts with customers in accordance with NZ IFRS 15 and determined that the standard has no material impact on the timing of revenue recognition for all major revenue streams and therefore no material impact on reported revenue in the prior year or opening retained earnings. The adoption of NZ IFRS 15 resulted in changes in accounting policies and presentation adjustments to the financial statements. Capital contribution revenue from customers who also have a delivery services agreement with the group is recognised over the assessed term of the delivery services agreement. Refer to note 1(b) for further information.

NZ IFRS 9 Financial Instruments, replaces the provisions of NZ IAS 39 that relate to the recognition, classification and measurement of financial assets and liabilities, derecognition of financial instruments and impairment of financial assets. The adoption of NZ IFRS 9 Financial Instruments from 1 April 2018, resulted in changes in accounting policies and impairment methodology for amounts recognised in the financial statements. The new accounting policy is set out in note 1(f) above. The impact of the change in impairment methodology did not result in a material change to the group's net trade receivables in the current or prior reporting periods. In accordance with the transitional provision in NZ IFRS 9, comparative figures have not been restated.

NZ IFRS 16 Leases, is effective 1 April 2019. NZ IFRS 16, will result in almost all leases being recognised on the balance sheet as the distinction between operating and finance leases is removed. The only exceptions are short term and low value leases. The adoption of NZ IFRS 16 is not expected to have a material impact on the group.

No other new accounting standards or interpretations that will become effective after the period are expected to have a material impact on the group.

Notes to the financial statements continued

	2019 $000	2018 $000
2. Operating revenues		
Revenue from contracts		
- recognised over time		
Electricity delivery services	256,477	251,610
Contracting services	42,712	37,721
Consumer capital contributions	62	-
- recognised at a point in time		
Sale of goods and services	12,544	10,345
Contracting services	2,721	2,782
Consumer capital contributions	4,880	10,882
Other income		
Transmission rental rebates	3,307	4,994
Gain on disposal of investment	218	-
Other	2,700	3,554
	325,621	321,888

	2019 $000	2018 $000
3. Operating expenses		
Transmission	70,184	69,861
Transmission rental rebates	3,307	4,994
Employee benefits	54,778	49,820
Network maintenance	28,086	25,703
Operating lease payments	505	1,724
Other	35,152	29,220
	192,012	181,322

Employee benefits in FY19 is net of $2.6m allocated to capital projects (2018: $2.6m).

	2019 $000	2018 $000
4. Depreciation, amortisation and impairment expenses		
Depreciation of property, plant and equipment	45,096	43,795
Impairment of property, plant and equipment	5,500	10,882
Amortisation of intangible assets	1,118	823
Property, plant and equipment disposed and written off	1,285	1,015
	52,999	56,515

	2019 $000	2018 $000
5. Interest expense		
Bank loans	10,524	9,510
Finance leases	1,103	1,068
Other	-	(136)
	11,627	10,442

No interest expense was capitalised during the year (2018: nil).

	2019 $000	2018 $000
6. Remuneration of the auditor		
Audit of the financial statements	251	259
Audit-related services	55	47
	306	306

Audit-related services comprise assurance reviews of the company's annual customised price-quality path (CPP) compliance statement and regulatory information disclosures.

Notes to the financial statements continued

	2019 $000	2018 $000
7. Income tax and deferred tax		
Income tax expense comprises:		
Current income tax charge	20,342	22,028
Adjustments to prior years	(345)	(1,767)
Temporary differences	(1,748)	473
	18,249	20,734
Reconciliation of profit before income tax with income tax expense:		
Profit before income tax	66,112	74,034
Prima facie income tax expense calculated at 28%	18,512	20,730
Other permanent differences	(263)	4
Income tax expense	18,249	20,734

	Property, plant and equipment $000	Earthquake insurance proceeds $000	Provisions $000	Other $000	Total $000
Deferred tax liability					
Balance as at 1 April 2017	188,395	1,548	(1,586)	(1,243)	187,114
Charged/(credited) to income	919	(247)	(81)	(118)	473
Balance as at 31 March 2018	189,314	1,301	(1,667)	(1,361)	187,587
Charged/(credited) to income	(1,064)	(173)	(179)	(332)	(1,748)
Balance as at 31 March 2019	188,250	1,128	(1,846)	(1,693)	185,839

The group's current income tax liability as at 31 March 2019 is $6.4m (2018: $5.9m). The liability mainly comprises the group's third instalment of provisional income tax for the year ended 31 March 2019 (31 March 2018).

The Orion consolidated tax group comprises the company, Connetics Limited and Orion New Zealand Ventures Limited for imputation credit account purposes.

The group's imputation credits available for use in subsequent reporting periods total $6.5m as at 31 March 2019 (2018: $7.1m), which includes the income tax liability of $6.4m (2018: $5.9m).

Notes to the financial statements continued

	2019 $000	2018 $000
8. Trade and other receivables		
Trade receivables and accruals	11,297	8,753
Contract assets	2,685	4,864
Allowance for impairment of trade receivables	(117)	(190)
	13,865	13,427
Trade receivables before allowance for impairment:		
Current	10,050	6,229
1 month overdue	578	1,072
2 months overdue	139	769
3 months overdue	530	683
	11,297	8,753
9. Inventories		
Goods for sale	5,598	5,065
Electricity distribution network stock	3,625	3,505
Allowance for impairment	(259)	(163)
	8,964	8,407
10. Intangible assets		
Capitalised at cost	16,093	15,386
Accumulated amortisation	(12,997)	(11,895)
	3,096	3,491

Intangible assets comprise computer software assets which have a finite life. Carrying values are amortised over their estimated useful lives. This period usually does not exceed three years – however for significant projects, estimated useful lives may be assessed as up to 10 years.

Notes to the financial statements continued

11. Property, plant and equipment

	Freehold land at fair value $000	Buildings and land improvements at fair value $000	Electricity distribution network at fair value $000	Plant and equipment at cost $000	Total $000
Gross carrying amount					
Balance as at 1 April 2017	67,135	18,547	1,027,939	44,082	1,157,703
Additions	393	14,211	57,725	5,507	77,836
Reclassified assets	-	-	-	(1,555)	(1,555)
Disposals	(43)	(48)	(2,386)	(2,409)	(4,886)
Balance as at 31 March 2018	67,485	32,710	1,083,278	45,625	1,229,098
Additions	521	419	71,299	5,550	77,789
Reclassified assets	-	(2)	-	2	-
Disposals	-	(31)	(3,420)	(2,989)	(6,440)
Balance as at 31 March 2019	68,006	33,096	1,151,157	48,188	1,300,447
Accumulated depreciation and impairment					
Balance as at 1 April 2017	-	-	-	27,651	27,651
Disposals	-	(7)	(1,130)	(2,223)	(3,360)
Reclassified assets	-	-	-	(1,555)	(1,555)
Depreciation expense	-	757	38,845	4,193	43,795
Asset impairment	3	30	10,849	-	10,882
Balance as at 31 March 2018	3	780	48,564	28,066	77,413
Disposals	-	(2)	(2,100)	(2,753)	(4,855)
Reclassified assets	-	(2)	-	2	-
Depreciation expense	-	707	39,833	4,556	45,096
Asset impairment	-	-	5,500	-	5,500
Balance as at 31 March 2019	3	1,483	91,797	29,871	123,154
Net book value as at 31 March 2018	67,482	31,930	1,034,714	17,559	1,151,685
Net book value as at 31 March 2019	68,003	31,613	1,059,360	18,317	1,177,293
Capital work in progress included above:					
As at 31 March 2018	81	275	41,675	194	42,225
As at 31 March 2019	88	196	48,579	69	48,932
Assets subject to finance leases included above:					
As at 31 March 2018	-	-	12,047	-	12,047
As at 31 March 2019	-	-	10,755	-	10,755

Notes to the financial statements continued

11. Property, plant and equipment continued

Electricity distribution network

The electricity distribution network, including substation buildings, ('the network') was revalued to fair value of $980.7m as at 31 March 2017, by independent valuer Ernst & Young Transaction Advisory Services Limited (EY), in accordance with NZ IAS 16 – Property, Plant and Equipment, NZ IAS 36 – Impairment of Assets, and NZ IRFS 13 – Fair Value Measurement. EY has significant experience in undertaking valuations of unlisted entities and assets for unit pricing, accounting and commercial purposes.

Including capital work in progress, EY's valuation resulted in a total network valuation of $1,028m.

In the absence of an active market for the network, EY calculated fair value using significant unobservable inputs (level 3, as defined in NZ IFRS 13). EY used a discounted cash flow (DCF) methodology. EY based its cash flow forecasts on the company's cash flow forecasts and adjusted those forecasts to remove the impacts of expansionary growth on forecast future revenues, operating expenditure and capital expenditure.

EY's key valuation assumptions were that:

- network revenues will be consistent with the company's customised price-quality path (CPP) limit for the two years ending 31 March 2019
- for the year ended 31 March 2020, the company's price limit will be reset at the previous year's limit, minus claw-back, plus CPI
- for the five years ended 31 March 2025, the company's price limit will be reset to achieve returns of regulatory WACC on regulatory investment value
- non-expansionary 'infill' growth will be 0.1% per annum
- the appropriate DCF discount rate is 5.5% post-tax.

EY performed sensitivity analysis as follows:

- a capital expenditure increase/(decrease) of 5% would decrease/(increase) fair value by $33m/($39m)
- a discount rate increase/(decrease) of 0.3% would decrease/(increase) fair value by $55m/($62m)
- an increase/(decrease) in gross margin of 2.5% would increase/(decrease) fair value by $59m/($66m).

The company considered that there were no indicators that the network carrying value as at 31 March 2018 or 31 March 2019 was materially different from fair value as at the valuation date.

In the year ended 31 March 2019, the company impaired the carrying value of its electricity distribution network and substation buildings on the basis that capital contributions reduce the value of the company's regulatory asset base, and this in turn reduces the company's future revenues from future regulatory price resets. The company has recognised:

- $4.9m (2018: $10.9m) of capital contribution revenue during the year
- $5.5m (2018: $10.9m) of associated impairment expense during the year.

Notes to the financial statements continued

11. Property, plant and equipment continued

Land and non-substation buildings

The company's land and non-substation buildings were revalued to fair value as at 31 March 2017, by Marius Ogg, in accordance with NZ IAS 16 – Property, Plant and Equipment, NZ IAS 36 – Impairment of Assets, and NZ IFRS 13 – Fair Value Measurement. Mr Ogg is a registered valuer and at the time was a director of CBRE Limited. Mr Ogg used significant observable inputs (level 2, as defined in NZ IFRS 13) and significant unobservable inputs (level 3, as defined in NZ IFRS 13).

Mr Ogg's valuations resulted in a total land and non-substation buildings valuation of $86m. Mr Ogg:

- selected a representative sample of the company's substation sites and valued land at those sites using sales comparisons and unit metre frontage methodologies (level 2). Mr Ogg compared his values with their respective rateable values. He used these comparisons to develop standard site multipliers, which he applied to rateable land values for approximately 2,300 substation sites
- valued the company's head office land and building using a market rental assessment and a capitalisation rate of 7.5% (level 3)
- valued the company's Waterloo Road depot site using a sales comparison method, and the buildings under construction using a depreciated cost method (level 2).

The company considered that there were no indicators that the company's carrying values for land and non-substation buildings as at 31 March 2018 or 31 March 2019 were materially different to fair value as at the valuation date.

Fair values for approximately 23% of the company's land and non-substation buildings (by value) were calculated using significant unobservable inputs (level 3, as defined in NZ IFRS 13).

Restrictions over title

There are no restrictions over the title of the group's property, plant and equipment, nor is any property, plant and equipment pledged as security for liabilities.

12. Trade and other payables

	2019 $000	2018 $000
Trade payables and accruals	28,858	28,219
GST payable	1,607	1,412
Other	3,360	1,819
	33,825	31,450

13. Employee entitlements

	2019 $000	2018 $000
Current	7,655	7,134
Non current	1,881	1,572
	9,536	8,706

Employee entitlements include a provision for employee long service leave. Key assumptions in the actuarial assessment of the provisions include the risk-free rate 1.77% (2018: 2.76%) and salary inflation 3.0% (2018: 3.0%), and an assessment of the probability of employees receiving each long service leave entitlement.

14. Provisions

Onerous lease

An onerous lease is considered to exist where the unavoidable costs of meeting the obligations under the lease exceed the economic benefits expected to be received from it. In the year ended 31 March 2018 a provision for onerous lease costs, relating to the net rental costs for two leased properties for the period April 2018 to March 2019, was made of $407,000. As at 31 March 2019 the provision has reduced to nil.

Notes to the financial statements continued

15. Borrowings

	2019 $000	2018 $000
Current		
Finance lease	1,080	975
Bank loans	-	52,700
Total current borrowings	1,080	53,675
Non current		
Finance lease	10,020	11,233
Bank loans	151,600	210,000
USPP Private Placement floating rate notes	140,000	-
Total non current borrowings	301,620	221,233

The finance lease liabilities relate to agreements with Transpower New Zealand Limited (Transpower) for Transpower to install new assets at or near its local grid exit points. The agreements have remaining terms of between one and 29 years (2018: between two and 30 years). The company does not own the assets at the end of the lease term and there is no residual value. There is no security provided for the arrangements. The monthly payment amounts are reviewed periodically by Transpower based on prevailing interest rates and agreed margins. The company is the only entity in the group which has a finance lease liability.

16. Financial instruments

Introduction

Exposures to interest rates, foreign currency, liquidity and credit risk arise in the normal course of the group's business. The group has policies to manage the risks associated with financial instruments. The significant accounting policies and methods adopted, including the criteria for recognition and the basis of measurement applied in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1.

Capital management

The group's capital includes share capital, reserves and retained earnings. The group's policy is to maintain a strong capital base to maintain investor, creditor and market confidence and to sustain future development of the business.

The board of directors regularly reviews the group's policies in respect of the management and allocation of capital. There has been no material change to the group's management and allocation of capital during the year.

All bank loans are unsecured against the group. The group provides certain covenants to its key lenders, by way of a negative pledge deed, that it will not create any material security interest over its assets to any party, except under certain agreed circumstances. The deed has other covenants that restrict certain asset disposals, the lending of money to other parties, non-commercial transactions with related parties, the alteration of share capital where this would have a material adverse effect and any material change of business. The deed includes an EBIT interest coverage requirement and an obligation that the guaranteeing group will comprise at least 75% of the group in terms of assets and earnings. The deed places other undertakings and obligations on the company – for example the obligation to provide relevant lenders with information, comply with the law and to pay taxes as they fall due. The company has complied with all covenants during the two years ended 31 March 2019.

The US Private Placement floating rate notes are unsecured against the group. The Note Purchase agreement with the US investors has terms which are substantially similar to those in the negative pledge deed referred to above. The company has complied with all terms of the agreement in the year ended 31 March 2019.

All interest bearing bank loans, US Private Placement debt and finance lease liabilities are in New Zealand dollars.

Notes to the financial statements continued

16. Financial instruments continued

Liquidity risk management

Liquidity risk represents the risk that the group may not be able to meet its financial contractual obligations. Prudent liquidity risk management implies maintaining sufficient cash, sufficient committed credit facilities and the ability to close out market positions.

The group manages its liquidity in accordance with its board-approved treasury policy. This policy requires that the group must ensure that prudent levels of committed funding facilities are in place at all times, using senior management's best overall judgement in conjunction with the board, and based on prudent cash flow forecasts.

In general, the group generates sufficient cash flows from its operating activities to meet its contractual obligations and it has sufficient funding arrangements in place to cover potential shortfalls. The group evaluates its liquidity requirements on an ongoing basis. The group's current forecasts for its debt/debt-plus-equity and its interest coverage indicate that it will maintain its financial ability to meet its contractual obligations for the foreseeable future (at least over the next 12 month period).

	2019 $000	2018 $000
Unsecured bank overdraft facility, payable at call:		
Amount used at reporting date	-	-
Amount unused at reporting date	500	500
	500	500
Unsecured bank loan facilities as at 31 March 2019 mature as follows:		
$100m on 25 September 2020		
$110m on 1 November 2022		
(2018: $100m on 25 September 2018)		
Amount used at reporting date	151,600	262,700
Amount unused at reporting date	58,400	47,300
	210,000	310,000
Unsecured US Private Placement floating rate notes as at 31 March 2019 mature as follows:		
$45m on 20 September 2028		
$95m on 20 September 2030		
Amount used at reporting date	140,000	-
Amount unused at reporting date	-	-
	140,000	-

Notes to the financial statements continued

16. Financial instruments continued

Interest rate risk management

The group has interest bearing floating rate debt, and so the group is exposed to variations in market interest rates.

Interest rates on the group's bank loans are based on market rates for bank bills plus a margin. As at 31 March 2019, interest rates (including margins) on the group's bank loans averaged 2.58% (2018: 2.57%). Daily commitment fees are also payable on the bank loan facilities.

Interest rates on the group's US Private Placement floating rate notes are based on market rates for bank bills plus a margin. As at 31 March 2019, interest rates (including margins) on the group's floating rate notes averaged 3.44% (2018: nil).

Interest rates on the group's finance lease liabilities are at rates set by Transpower plus, for some contracts, a margin. As at 31 March 2019, interest rates on the group's finance lease liabilities averaged 9.3% (2018: 9.4%).

The group's other financial liabilities are non interest bearing.

The group enters into interest rate swaps to manage the company's interest rate risk. The swaps are with various New Zealand registered bank counterparties with such credit ratings and within limits set by the board of directors. The swaps' cash requirements are limited to the contracted fixed interest rates for the periods specified in each swap. The group usually enters swaps for periods up to five years in tenor.

Under interest rate swap contracts, the group agrees to pay fixed interest rates and to receive floating interest rates, calculated on agreed notional principal amounts for specified periods. The swaps effectively convert portions of floating rate debt into fixed rate debt. All swaps are held by the company. The fair values of interest rate swaps are based on market values of equivalent instruments at the reporting date and are disclosed below. The group does not use hedge accounting and gains and losses on remeasurement are recognised in profit and loss immediately. The net change in fair value of swaps for the year ended 31 March 2019 was an expense of $2,980,000 (2018: income $303,000).

The following table details outstanding interest rate swaps as at the reporting date:

	Average contracted fixed interest rates	Notional principal swap amounts		Carrying value asset/(liability)	
		2019	2018	2019	2018
Swap maturity dates	%	$000	$000	$000	$000
October 2018	3.2	-	100,000	-	(897)
March 2020	2.2	40,000	40,000	(191)	7
October 2020	2.3	70,000	70,000	(812)	19
June 2021	2.8	40,000	40,000	(1,006)	(473)
December 2023	2.5	70,000	-	(2,315)	-
		220,000	250,000	(4,324)	(1,344)
Disclosed as:					
Non current assets				-	187
Current liabilities				(191)	(897)
Non current liabilities				(4,133)	(634)
				(4,324)	(1,344)

Notes to the financial statements continued

16. Financial instruments continued

The group considers that a reasonably possible movement in New Zealand interest rates is a 1% movement in either direction. For bank loans and USPP private placement floating rate notes, the impact on the fair value of interest rate swaps of an increase of 1% in interest rates as at 31 March 2019 would increase the group's profit before income tax by approximately $5,031,000 (2018: $3,699,000). A decrease of 1% would decrease the group's profit before income tax by approximately $5,250,000 (2018: $3,858,000). When interest rates rise, the benefit from the revaluation of the company's multi-year interest rate swaps outweighs the additional one-year interest expense on the company's floating rate debt. The converse applies when interest rates decrease. For the group's other financial assets and liabilities, an increase/decrease of 1% in interest rates would have an immaterial impact on the group's profit before income tax.

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations, resulting in financial loss to the group. Financial instruments that potentially subject the group to concentrations of credit risk consist of cash, short term investments, trade receivables and derivative financial instruments.

The group places its cash, short term investments and derivative financial instruments with registered New Zealand banks. Only independently rated banks with a minimum Standard & Poor's (or equivalent) credit rating of 'A' or better are accepted. The group limits the credit exposure to any one bank in accordance with its board-approved treasury policy.

The group manages its exposure to credit risk from trade receivables by performing credit evaluations on customers requiring credit wherever practicable and monitoring credit exposures to individual customers. There are no significant concentrations of credit risk within trade receivables. Trade receivables are non-interest bearing. The carrying value of trade receivables approximates their estimated fair value.

Pursuant to the electricity participation code, the company may only require collateral securities from its electricity retailer customers if those customers do not have a Standard & Poor's (or equivalent) minimum credit rating of 'BBB-minus'. The company invoices electricity retailers and its direct major customers on the 10th day of the month of usage (based on an estimation of usage), with payment due on the 20th of that month. Invoiced amounts are subject to subsequent adjustments for later (more accurate) metering data as outlined under critical judgements, estimates and assumptions in note 1. Collateral security is not generally required from the group's other customers.

Bad debts written off mostly relate to debtors who have damaged the company's electricity distribution network assets. The company enters arrangements with some of these debtors to allow them to pay their debts off over time. These rearranged debts form the majority of the 'three months overdue' category in note 8.

The maximum exposure to credit risk for bank balances, accounts receivable and derivative financial instrument assets is equal to the carrying values of these assets.

Carrying values of financial instruments

Cash and cash equivalents, trade and other receivables, trade payables and borrowings are measured at face value less impairment.

The group uses observable market prices and discounted cash flow techniques to calculate the fair value of its interest rate swaps. The discount rate used is based on the applicable market swap curve. This is the 'level 2' valuation category as described in NZ IFRS 13 – Fair Value Measurement.

Notes to the financial statements continued

17. Share capital

The company has 70 million fully-paid ordinary shares on issue with a par value of $1.50 per share, total $105m (2018: $105m).

18. Information about subsidiaries

Connetics Limited is a contractor in the electricity distribution and utility sectors. The company has owned a 100% equity interest in Connetics since April 1996.

19. Commitments

	2019 $000	2018 $000
Capital expenditure	18,428	18,923
Operating leases	1,610	2,179

Most commitments are expected to be incurred in the next financial year.

20. Contingent assets and liabilities

On 13 February 2017, two fires started on the Port Hills near Christchurch and eventually spread to over 1,600 hectares. On 30 January 2018, Fire and Emergency New Zealand released its reports into the causes of the fires, with an official 'undetermined' cause for both fires, but it believes that both were deliberately lit and that its investigations will only reopen if new evidence comes to light. IAG Insurance, on behalf of a number of its clients, has filed a statement of claim in the High Court with two key claims that the company's electricity network caused the first fire on Early Valley Road, that in turn caused 'in excess of $3.8m' of losses for its clients. The company has filed a statement of defence in the High Court denying IAG's claims and any liability. The High Court has yet to set a trial date. The company insures for liability risks, in line with good industry practice.

Other than the potential issue above, the group had no significant contingent assets or liabilities as at 31 March 2019 (2018: nil).

21. Significant events after balance date

The group is not aware of any significant events between the preparation and authorisation of these financial statements on 7 June 2019.

Notes to the financial statements continued

22. Related party transactions

Group structure

The parent is Orion New Zealand Limited, which is owned by Christchurch City Holdings Limited (CCHL) (89.275%) and the Selwyn District Council (SDC) (10.725%). CCHL is owned by the Christchurch City Council (CCC).

Related parties include:

- CCC and SDC
- the subsidiaries of CCC and SDC
- the group's key management personnel.

The group undertakes many transactions with the CCC and SDC and their related parties, which are carried out on a commercial and arms-length basis. The group utilises the Electricity Act 1992 and historical arrangements to determine the capital contributions required from CCC and SDC towards underground conversion projects. These contributions may not recover all costs incurred. No material transactions, other than the payment of dividends to CCHL and SDC, were entered into with related parties during the year.

Transactions during the year	2019 $000	2018 $000
Dividends paid to CCHL and SDC	53,000	55,000
Purchases from CCC/SDC	4,524	4,765
Underground conversion contributions from CCC/SDC	308	681
Other sales to CCC/SDC	12,486	8,922
Purchases from other related parties	1,063	1,138
Sales to other related parties	1,408	3,644
Outstanding balances as at 31 March		
Accounts payable to CCC/SDC	9	24
Accounts receivable from CCC/SDC	2,024	1,222
Accounts payable to other related parties	67	194
Accounts receivable from other related parties	69	161
Key management personnel compensation		
Salaries and short term employee benefits	3,199	2,886
Post-employment benefits	159	194

Other transactions involving related parties

The group paid directors' fees totalling $373,000 during the year (2018: $361,000). No directors received retirement gifts during the year (2018: one director, $515). No other transactions were entered into with any of the company's directors, other than the payment of directors' fees and the reimbursement of valid company-related expenses such as travel costs to board meetings.

Key management personnel is defined as the company's directors, the company's chief executive officer and the company's managers who directly report to the chief executive officer. Key management personnel purchased goods and services from group companies during the year which in total did not exceed $2,000 for any individual (2018: all less than $2,000). A total of nil was due from key management personnel as at 31 March 2019 (2018: nil). All transactions were conducted on standard commercial terms. Close family members of certain key management personnel are employed by the group. The terms and conditions of those arrangements are no more favourable than those that the group would have adopted if there was no relationship to key management personnel.

Performance statement – financial

	Notes	Actual 2019	Target 2019	Actual 2018
Network delivery revenue ($m)	1, 2	256.5	260.5	251.6
Profit after tax ($m)	1, 2	47.9	50.4	53.3
Profit after tax to average equity (%)	1, 2	7.2	7.5	7.9
Debt to debt plus equity (%)	3	31	31	29
Equity to total assets (%)	3	55	56	57
Fully imputed dividends ($m)		53	53	55

Note 1

	Variances post-tax $m
Net profit was $2.5m below the statement of intent target because of:	
Below-budget expenses	2.1
Below-budget interest expense	0.5
Below-budget Connetics profit	(0.8)
Above-budget interest rate swap revaluation expense	(2.1)
Below-budget network distribution revenue	(2.3)
Other	0.1
	(2.5)

Note 2

Net profit was $5.4m below last year's because of:	
Higher network distribution revenue	3.3
Lower Connetics profit	(0.4)
Lower sundry revenues	(0.7)
Higher interest expense	(0.7)
Higher network maintenance expense	(1.7)
Higher interest rate swap revaluation expense	(2.4)
Higher other expenses	(2.6)
Other	(0.2)
	(5.4)

Note 3

Debt is defined as interest bearing group borrowings, net of cash and cash equivalents. Equity is defined as shareholders' equity.

Performance statement – network reliability

	Approx number of connections 31 March 2019	Actual 2019 *	Target 2019	Actual 2018 *	Industry weighted average 2018 *
Orion network interruptions:					
Duration of supply interruptions in minutes per year per connected customer (SAIDI)					
- Region A	172,000	27	22	29	
- Region B	32,500	336	357	354	
- overall	204,500	76	73	79	280
Number of supply interruptions per year per connected customer (SAIFI)					
- Region A	172,000	0.4	0.6	0.6	
- Region B	32,500	2.6	2.3	3.1	
- overall	204,500	0.8	0.9	1.0	2.3

Important notes:

1. Natural disasters and other major events can cause significant numbers and/or durations of network supply interruptions. The future occurrence and/or severity of these events cannot be predicted.
2. SAIDI and SAIFI are standard industry measures of network reliability performance. They include planned and unplanned interruptions, but exclude interruptions that are caused by electricity generators or Transpower, or are caused by the low voltage (400V) network, or last for less than one minute.
3. The Commerce Commission has set performance limits for our network reliability, pursuant to our customised price-quality path (CPP). The Commission assesses our actual performance against those limits, after 'normalising' for the impacts of 'major events'. Our overall targets above are consistent with our CPP limits for FY19. After applying the Commission's normalisation methodology, we achieved our network reliability limits in FY15 – FY18 but slightly exceeded our SAIDI limit in FY19 (74 actual against a target of 73). In late 2019, the Commission will reset our network reliability limits for FY21 to FY25. As part of that process, we will make submissions to the Commission with the aim that our reset limits are achievable and in the long term interests of our customers.
4. Columns marked with an asterisk (*) are stated gross – before normalising for major events.
5. As Christchurch has spread west post-earthquake, it has become difficult to define a split between urban and rural. We have therefore changed to two regions. *Region A* is largely supplied from Transpower's Islington and Bromley grid exit points. *Region B* is largely supplied from other grid exit points.

Performance statement – network development

1. **Work with the Christchurch City Council (CCC), Government agencies and property developers to support the CBD rebuild**

Target date: Ongoing

Status: Achieved

We continue to work with these parties on an ongoing basis. Each development needs to be individually assessed. Our aims are to provide great customer service, to minimise network outages and to protect the integrity of our network.

2. **Install a new 11kV feed to Lyttelton**

Target date: 31 March 2019

Status: Substantially achieved

The Lyttelton port is an important lifelines facility for the city and region, so it is important that our feed to the area is resilient and reliable. In addition to the upgrade we made to our 11kV overhead line to Lyttelton in FY18, we planned to install a separate 11kV cable to Lyttelton in FY19.

At 31 March 2019 we had completed the preparation works within the tunnel and surrounding areas. The cable install was completed in May 2019 and will be commissioned by 31 July 2019.

3. **Replace the 33kV outdoor circuit breakers at our Islington zone substation**

Target date: 31 March 2019

Status: Delayed

We plan to replace these with indoor circuit breakers in a purpose-built switch room. This project is part of our ongoing asset lifecycle management and upgrades of local spur assets that we have acquired from Transpower since 2012. The outdoor breakers are nearing end-of-life. The new building has been completed and we expect that the balance of the work will be completed in early FY20. On investigation we had to reconfigure our network before we could take these circuit breakers out of service.

4. **Install a second transformer at our Waimakariri zone substation**

Target date: 31 March 2019

Status: Achieved

This project supports continued load growth in the north of Christchurch, and helps maintain our security of supply standards. Work was completed earlier this year.

Performance statement – environment

Introduction

We aim to be environmentally responsible, consistent with our principal objective to operate as a successful business. We review our overarching environmental policy at regular intervals, and we publish it on our website.

1. **Comply with applicable environmental legislation**

Target date: Ongoing

Status: Achieved

We are committed to being environmentally responsible, consistent with our principal objective to operate as a successful business. The board approves our overarching environmental policy at least annually and we publish it on our website.

Our most significant impacts, or potential environmental impacts, are:

- our carbon footprint
- sulphur hexafluoride (SF6) gas losses to the atmosphere from our network equipment
- uncontained oil spills from our network transformers.

Our targets for these three key issues are below.

2. **Measure our carbon footprint for our operations and identify options to reduce it**

Target date: 31 March 2019

Status: Achieved

We have measured our carbon emissions for FY18, with the assistance of Enviro-Mark and consistent with the GHG Protocol Corporate Accounting and Reporting Standard.

Our unaudited carbon footprint measurement for the company, excluding Connetics, for FY18 is (rounded):

GHG Protocol scope categories	Approximate tonnes of CO2 equivalent
Scope 1 – *direct emissions* from sources that the company owns or controls.	700
Scope 2 – *indirect emissions* from electricity the group purchases and from electrical losses from electricity that naturally occur as passes through our network. Over 98% of this category is due to electrical losses.	16,400
Scope 3 – *mandatory emissions* from sources that the group doesn't own or control.	200
Scope 3 – *optional emissions* from embodied carbon in the assets we installed on our electricity distribution network in FY18.	8,000
	25,300

Our total carbon footprint of 25,300 tonnes equates to just over 0.1 tonne per customer connection for our electricity distribution network.

Approximately 95% of our annual carbon footprint is out of our direct control and is caused by:

- electrical losses as electricity passes through our electricity distribution network
- embodied carbon in new assets that we install on our network each year – for example: cables, transformers, switchgear, protection equipment and support structures.

Performance statement – environment continued

2. Measure our carbon footprint for our operations and identify options to reduce it continued

We class these emissions as 'intractable' and do not expect them to alter significantly over time.

For those emissions where Orion has a measure of control, we have identified initial options to reduce our carbon footprint including:

- reviewing our fleet management strategy
- investigating use of biofuels
- improving efficiency of electricity use
- investigating alternatives to use of SF6 gases in our network equipment.

During FY20, we will:

- commission an independent audit of our carbon footprint, and our measurement process
- further investigate and cost our carbon reduction options
- work with Connetics to measure its carbon emissions and identify options to reduce them. Initial indications are that Connetics' annual emissions are approximately 2,000 tonnes of CO2 equivalent, around 75% of which is made up of fleet and generator emissions.

3. Continue to undertake and encourage demand side management (DSM)

Target date: Ongoing

Status: Achieved

Our DSM initiatives aim to reduce network peaks so as to reduce electrical losses, prevent over investment in network assets and reduce the need for fossil fuel generation during peak demand periods.

Key elements of our DSM initiatives are:

- our cost-reflective network pricing – which aims to reflect the costs of providing our network delivery service. Our pricing helps our customers to make efficient decisions about which form of energy to use and when to use it, which contributes to overall economic welfare and long-term carbon savings
- our residential hot water cylinder load management – which helps us shift demand away from peak demand periods
- our collaboration with other electricity distributors on the upper South Island centralised load management control system – which helps to reduce transmission system peaks.

4. Keep annual SF6 gas losses below 0.8% per year

Target date: Ongoing

Status: Achieved

Most of our 66kV circuit breakers use SF6 gas as the interruption medium. We haven't yet found a viable vacuum option for this voltage. In our memorandum of understanding with the Ministry for the Environment, we commit to keeping annual SF6 gas losses below 1% of the total contained in our network equipment. We have documented procedures to assist us to achieve that commitment. Our SF6 losses in FY19 were less than 0.2% (last year: less than 0.1%).

5. Keep non-contained oil spills to nil

Target date: Ongoing

Status: Achieved

We have installed oil containment bunding at our zone substations that have oil-filled transformers. We also have documented oil spill mitigation procedures to quickly and effectively deal with incidents should they occur. During the year we had no significant adverse oil spill incidents (last year nil).

Performance statement – environment continued

6. Continue to sponsor Community Energy Action (CEA)

Target date: Ongoing

Status: Achieved

We have sponsored and supported CEA since its inception in 1994.

CEA aims to:

- provide advice and education to our local community
- provide leadership and advocacy within our community and on a national level
- ensure relevant energy efficiency solutions are available to all households in our community.

We have made financial sponsorship grants to CEA of $200,000 per year for many years. We continued that level of sponsorship in FY19. More than 20,000 local homes have benefited from CEA's services.

7. Have at least 35 public electric vehicle (EV) charge stations installed around our region

Target date: 31 March 2019

Status: Under review

Our research tells us that the vast majority of EV charging will be done at home. Research also tells us that EV 'range anxiety' is an impediment to customers converting to EVs. In order to reduce range anxiety, we and our partners have so far installed:

- 18 charge stations at our head office site that the public may use free of charge during weekday work hours (last year: 18)
- 26 public charge stations around our region (last year: 25).

Our charger sites are easy to locate on the popular EV app – plugshare.

We have achieved our objective of seeding the market and we are currently reviewing our EV charge station strategy.

8. Convert 30% of Orion's operation passenger vehicle fleet to electric drive capability

Target date: 31 March 2019

Status: Achieved

We have achieved this target, with 33% of our operational passenger fleet already converted (last year: 27%).

Performance statement – health and safety

1. No serious safety events involving our employees or our contractors

Target date: Ongoing

Status: Not achieved

This target covers Orion and Connetics, and external contractors. We define a serious event as a notifiable event, as per section 25 of the Health and Safety at Work Act 2015. If there is doubt, we classify events as serious. We are focused on continuous improvement of our safety management systems, and our focus is to prevent serious safety events.

We had six serious events involving six group employees during the year:

- one received a moderate injury, with 20 days of lost time and ten days on restricted duties
- two received minor injuries, with no lost time
- three received no injuries.

We employed 566 people across the group on average during the year.

Our contractors had three serious events involving three contractor employees during the year:

- one received a serious injury
- two received no injuries.

We (and our contractors where applicable) have investigated all nine events noted above, and implemented corrective actions. Following notification, Worksafe decided to not investigate any of the nine events further.

Some of our initiatives during the year have been to:

- implement a new Quality, Health, Safety and Environment Assurance programme and undertake internal audits of our processes and procedures
- conduct a fatigue review
- install defibrillators in our field response vehicles
- run health and safety refresher courses for all Orion staff.

2. No serious events involving members of the public

Target date: Ongoing

Status: Achieved

During the year there were no accidents (excluding car versus pole traffic accidents) involving members of the public (last year: one event, which did not result in an injury).

Performance statement – health and safety continued

3. Promote our local public safety education and awareness programme in the safe use of electricity

Target date: Ongoing

Status: Achieved

Our public safety programme covers issues such as:

- tree owner responsibilities near overhead lines
- close approach to lines with irrigators and other operators of plant
- scaffolding near lines
- householder maintenance near lines
- digging near underground cables
- moving high loads such as houses or large boats
- safety and security near electrical equipment.

We especially target contractors and their principals that are exposed to significant hazards in the field and, in particular, those involved in the wider post-quake rebuild. We deliver our messages through our website, community shows, presentations to targeted groups and through regular media outlets such as local newspapers and radio.

WorkSafe has a mandatory code of practice for working within four metres of overhead networks and there are industry best practice guides for working near our underground network and for transport of high loads. Our written consent is required to allow such work to be undertaken near our network.

Performance statement – community and employment

1. Achieve voluntary annual staff turnover of less than 5% for Orion and less than 10% for Connetics

Target date: Ongoing

Status: Achieved

These targets exclude the impacts of employees leaving for reasons of retirement, redundancy or on completion of a fixed term (or casual) employment contract or disciplinary related.

During the year employee turnover was:

- 4.5% for Orion (last year: 5.6%)
- 7.1% for Connetics (last year: 12.2%).

2. Ensure sustainable network asset management competence via our Orion engineering development programme

Target date: Ongoing

Status: Achieved

Our programme continues to successfully develop and place talented and motivated people into key positions in our business. We advertise internally and externally for candidates. Successful candidates are selected on merit.

Engineering trainees are trained and gain work experience in the business, with a view to placing them in areas where there are current or forecast skill shortages and/or succession opportunities. Trainees usually complete the programme in three to four years, and are then offered roles in the company.

As at 31 March 2019, six employees were in the Orion engineering development programme (equivalent date last year: six).

3. Ensure sustainable contracting skills competence via our Connetics apprentice scheme

Target date: Ongoing

Status: Achieved

Connetics will continue with this scheme to ensure that our key contracting subsidiary company sustainably develops and improves its industry competencies.

As at 31 March 2019, Connetics employed 34 apprentices (last year: 27) as follows:

- 15 electrical – including substations, street lighting and wider electrician units
- 19 multi skill – overhead lines and underground cables.

4. Support the Ara Institute of Canterbury trades innovation centre

Target date: Ongoing

Status: Achieved

Ara has a simulated subdivision at its Sullivan Avenue site, where trades trainees can be trained in real life situations. The facility is fully operational for electricity distribution – including overhead lines, underground cables and substations – and it's an important part of our competence training for our employees, for our contractors and for the industry. We continue to support this facility to ensure it remains relevant.

Audited consolidated financial statements - Orion New Zealand Limited - year ended 31 March 2019

Performance statement – community and employment continued

5. Undertake diversity & inclusion training for all Orion employees

Target date: 31 October 2018

Status: Achieved

Our objectives are to achieve an inclusive culture and environment, where diversity is valued and embraced. In this regard it is vital that we engage with our people so that we all understand what we want to achieve and why.

Our people have participated in Treaty of Waitangi and Maori competency training, and sign language awareness sessions.

We have also piloted unconscious bias training.

Following this initial engagement stage, we will set further targets for this area.

Audit New Zealand independent auditor's report

Independent Auditor's Report

To the readers of Orion New Zealand Limited group's financial statements and performance information for the year ended 31 March 2019

The Auditor-General is the auditor of Orion New Zealand Limited group (the group). The Auditor-General has appointed me, John Mackey, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and the performance statements of the group on his behalf.

Opinion on the financial statements and the performance statements
We have audited:

- the financial statements of the group on pages 41 to 65, that comprise the statement of financial position as at 31 March 2019, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and the performance statements of the group on pages 66 to 75.

In our opinion:

- the financial statements of the group:
    - present fairly, in all material respects:
        - its financial position as at 31 March 2019; and
        - its financial performance and cash flows for the year then ended; and
    - comply with generally accepted accounting practice in New Zealand in accordance with New Zealand equivalents to International Financial Reporting Standards; and
- the performance statements of the group presents fairly, in all material respects, the group's achievements measured against the performance targets adopted for the year ended 31 March 2019.

Our audit was completed on 7 June 2019. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities relating to the financial statements and the performance statements, we comment on other information, and we explain our independence.

Basis for our opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the Board of Directors for the financial statements and the performance statements

The Board of Directors is responsible on behalf of the group for preparing financial statements that are fairly presented and that comply with generally accepted accounting practice in New Zealand.

The Board of Directors is also responsible on behalf of the group for preparing performance statements that is fairly presented.

The Board of Directors is responsible for such internal control as it determines is necessary to enable it to prepare financial statements and performance statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements and the performance statements, the Board of Directors is responsible on behalf of the group for assessing the group's ability to continue as a going concern. The Board of Directors is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to liquidate the group or to cease operations, or there is no realistic alternative but to do so.

The Board of Directors' responsibilities arise from the Energy Companies Act 1992.

Responsibilities of the auditor for the audit of the financial statements and the performance statements

Our objectives are to obtain reasonable assurance about whether the financial statements and the performance statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers taken on the basis of these financial statements and performance statements.

We did not evaluate the security and controls over the electronic publication of the financial statements and the performance statements.

Audit New Zealand independent auditor's report continued

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements and the performance statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control.
- We evaluate the appropriateness of the reported performance statements within the group's framework for reporting its performance;
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements and performance statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements and the performance statements, including the disclosures, and whether the financial statements and the performance statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included on pages 2 to 39 and 78 onwards, but does not include the financial statements and the performance statements, and our auditor's report thereon.

Our opinion on the financial statements and the performance statements does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements and the performance statements, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements and the performance statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independence

We are independent of the group in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board.

In addition to this audit, we have carried out other audit and assurance engagements for the group. These audit and assurance engagements, as described in note 6 on page 54, are compatible with those independence requirements.

Other than the audit, and these engagements, we have no relationship with or interests in the group.

John Mackey
Audit New Zealand
On behalf of the Auditor-General
Christchurch, New Zealand

Governance

Shareholders

Our shareholders are:

• Christchurch City Holdings Limited – 100% owned by the Christchurch City Council	89.275%
• Selwyn District Council	10.725%
	100.000%

Principal objective and principal activities

In accordance with section 36 of the Energy Companies Act 1992, the group's principal objective is to operate as a successful business.

The group's principal activities during the year were to provide electricity distribution services to customers in Christchurch and central Canterbury and to provide contracting services in the utilities sector.

Statement of intent

In accordance with section 39 of the Energy Companies Act 1992 and the company's constitution, the board submits a draft SOI to the company's shareholders in February each year. After considering comments from those shareholders, the board approves the final SOI and a copy is placed on the company's website.

Board of directors

The board is the overall body responsible for the proper direction and governance of the group. The board's responsibilities include the group's overall objectives, strategies, stewardship, management, performance and reporting. The board acts within the company's constitution and a board code of conduct that sets out how the board and directors shall undertake their activities. The directors are committed to best practice governance, as is appropriate for a community-owned lifelines utility, and as part of this the company may provide financial assistance to directors' ongoing professional development.

The company's shareholders appoint the directors to govern the company's activities. Pursuant to the company's constitution:

- one director is appointed by the Selwyn District Council
- all other directors are appointed by Christchurch City Holdings Limited, one in consultation with the Selwyn District Council.

New directors undertake an induction process to familiarise them with matters related to the company. At least one third of the directors retire by rotation each year and the shareholders may appoint one or more of those directors for a further term.

The board elects the board chair, who leads the conduct of the board and its relationship with shareholders and other major stakeholders. The board chair maintains a close professional relationship with the chief executive officer and through the CEO, the senior leadership team.

Board meetings

The board meets approximately ten times per year, with additional meetings convened when required. The board sets an annual work programme before the start of each calendar year. The board receives formal agenda papers and regular reports, generally a week in advance of meetings. Senior managers and independent experts are regularly involved in board discussions. Directors may also obtain further information and independent expert advice.

Board committees

The board delegates some responsibilities and tasks to board committees, however the board retains the ultimate responsibility and accountability for any committee's actions or inactions. All directors receive the agenda papers and minutes for committee meetings and any director may attend a committee meeting, unless a conflict of interest prevents this. The board's two standing committees are:

- the audit committee liaises with the company's independent internal and external auditors, reviews the quality and reliability of internal controls, reviews key company governance policies and recommends approval of certain regulatory information disclosures and reports to shareholders
- the remuneration committee reviews the company's remuneration policies and practices, and it reviews and sets the remuneration of the company's chief executive officer and senior management team respectively.

The following directors served as standing committee members during the year ended 31 March 2019:

Audit committee

Bruce Gemmell – chair
John Austin
Nicola Crauford
Jane Taylor – from 18 August 2018
Geoff Vazey – from 6 April to 17 August 2018
Nicholas Miller – to 5 April 2018

Remuneration committee

Geoff Vazey – chair
Jason McDonald – from 6 April 2018
Nicholas Miller – to 5 April 2018

Governance continued

Performance management

The board reviews the group's performance, the board's performance and the chief executive's performance at regular intervals. The reviews aim to identify and set plans for performance development and improvement.

Risk management

The group aims to identify, assess and manage its significant risks, consistent with good industry practice and the international risk management standard ISO 31000:2018. The board oversees and reviews the group's overall risk context and risk management. As appropriate for a community-owned (lifelines) electricity distribution business, the group has a cautious (relatively risk-averse) risk appetite for its electricity distribution business.

The group insures for potential liability and non-liability loss exposures, in line with good industry practice, however it is not practicable or cost-effective to insure for all potential loss exposures. The group's liability insurance policies also cover directors and officers, within the limits and requirements of the Companies Act 1993 and the company's constitution.

Legislative compliance

The board receives regular updates and representations from management on legislative compliance. Areas of relevant law include corporate, taxation, financial reporting, electricity industry regulation, commercial, environment, human resources, health and safety and privacy. Compliance manuals and training are made available to all employees and the group engages independent experts for advice on some issues.

Social responsibility, sustainability and people

The group aims to:

- act in a socially responsible way, as a good corporate citizen and as a good employer
- consult with key stakeholders on key decisions as appropriate
- focus on areas that will have the greatest sustainability impacts for the wider community.

The group is a socially responsible and equal opportunities employer and aims to have an inclusive environment where diversity is valued and embraced. Health and safety is everyone's responsibility. The group aims to have safe worksites and a safe network – for employees, contractors, visitors, customers and the wider community. The group aims to attract, retain, develop and motivate high calibre employees at all levels – to support the group's principal objective to operate as a successful business.

The group's greatest sustainability contribution is connecting customers with New Zealand's renewable, low-carbon electricity generation.

Code of ethics, conflicts of interest policy and reporting serious wrongdoing (whistle-blower) policy

These three policies require all directors and employees to:

- act with integrity, honesty, transparency, openness and in good faith
- comply with the law, apply good judgment and proactively identify, disclose and manage conflicts of interest
- promptly disclose or report any significant potential or perceived conflicts of interest or wrongdoing
- protect those who report suspected wrongdoing in good faith.

All directors and employees are made aware of the above policies and other supporting polices.

The group does not make loans to directors.

Donations

The group made $15,000 of donations to charitable causes in the year ended 31 March 2019 (2018: $1,000).

Auditor

Audit New Zealand on behalf of the Auditor-General is the group's independent auditor.

Governance continued

Financial Market Authority's good governance guidelines

The FMA's guidelines promote eight principles of good governance. The company's governance practices compare as follows:

FMA principle	Orion relative to the FMA principle
Boards should set high standards of ethical behaviour and hold management to account to deliver those standards throughout the organisation.	Directors are required to comply with the board code of conduct and company policies. Employees are also required to comply with company policies - including code of ethics, conflicts of interest, fraud and theft, reporting serious wrongdoing (whistle-blower), sustainability and diversity and inclusion. The board regularly reviews the company's key policies for alignment with the company's purpose and objectives, and monitors compliance with policies and legislative requirements – including via liaison with the company's independent auditors.
Boards should have a balance of skills, knowledge, experience, independence and perspectives.	The board has a good degree of such a balance. Achieving that balance is the responsibility of the company's shareholders, who appoint all directors. The shareholders usually consult with the board chair in that process. All directors are independent non-employees.
Boards should use committees where this will enhance its effectiveness in key areas, while still retaining board responsibility.	The board code of conduct specifies the terms of reference and delegated authorities for the audit and remuneration committees. Both committees are chaired by a director other than the board chair. The board may also establish committees for other specific tasks – but this happens relatively rarely. The board code of conduct specifies that delegations to board committees do not absolve the board from the overall responsibility for a committee's actions or inactions.
Boards should require integrity in financial and non-financial reporting, and timeliness and balance of corporate disclosures.	The board scrutinises internal and external reporting and liaises closely with the company's independent auditors. In late 2018, the board approved a three-year independent internal audit programme to further assist assurance in this area. As an electricity distribution business, the company is subject to significant ongoing regulatory information disclosure requirements, many of which are subject to director certification and independent audit. The group's annual financial and performance statements, and certain regulatory information disclosures, are subject to independent audit. Annual reports include financial and non-financial disclosures.
Director and executive remuneration should be transparent, fair and reasonable.	The company's shareholders review and approve the total pool of directors' fees by way of shareholder resolution – which currently applies for the three years to 30 June 2020. The board approves the subsequent allocation of fees to per-director positions – for the board chair, other directors and board committee members. The Orion board reviews and approves directors' fees for Connetics. Orion executives do not receive fees as Connetics directors. The Orion board remuneration committee oversees the CEO's and executives' remuneration and it reviews relevant market information as part of that process. The overall policy for executive and employee remuneration for the group is to meet the relevant market, subject to performance.
Boards should know the key risks faced by the business, and should regularly verify there are appropriate processes to identify and manage these.	The board receives regular reports on and reviews the company's: • key risks – which include natural disasters (especially a major earthquake), health and safety, cyber security and critical network equipment failure • risk context and risk appetite/tolerance • risk treatments – including risk reduction/elimination and risk transfer (insurance).
Boards should ensure the quality and independence of external audits.	The board and the board audit committee have a good professional relationship with independent internal and external auditors. Audits can be financial and/or non-financial, including for regulatory information disclosures. Board audit committee meetings have staff-excluded time to ensure auditors' independence from management.
Boards should respect the rights of shareholders and foster constructive relationships with shareholders and stakeholders.	The board's code of conduct requires this principle and the group's statement of intent also commits the group to this. The board chair and CEO lead this process for the board, but given the nature of the group's business and its community ownership, such respect and constructive relationships with shareholders occur at many levels of the group.

Governance continued

Interests register

Directors recorded the following in the interests register during the year ended 31 March 2019:

John Austin	Thomas Austin Securities Limited	Director and shareholder
Nicola Crauford	Co-operative Bank Limited – electoral authority	Member
	Environmental Protection Authority	Director
	Fire and Emergency New Zealand	Director
	GNS Science and subsidiaries/associates	Director
	Riposte Consulting Limited	Director and shareholder
	Watercare Services Limited	Director
	Wellington Water Limited	Director
	WorleyParsons New Zealand Limited	Specialist advisor
Bruce Gemmell	ATT Trustee Limited and subsidiaries	Director
	Christchurch Symphony Foundation Trust	Trustee
	Fortress Information Systems Limited – advisory board	Member
	Gemmell Finance Limited	Director and shareholder
	Gemmell Group Limited	Director and shareholder
	Highlanders GP Limited	Director
	Lincoln University	Chancellor
	Miramar Consolidated Limited	Director
	Planz Consultants Limited	Director
	Second Little Pig Was Right Limited	Director and shareholder
Jason McDonald	Mevo Limited	Director
	Redbus Limited	Director
	Scots College Wellington – board of governors	Member
Nicholas Miller	Annavale Limited	Director
	Broadspectrum Pty Limited	CEO and managing director
	Coleridge Downs Limited	Director
	HCG Group Limited	Director
	Halerose Limited	Director and shareholder
	Magnolia Farm Limited	Director and shareholder
	Quake Core – advisory board	Member
	Rangi Ruru Girls' School – board of governors	Member
	Southbase Construction Limited and subsidaries	Director
Jane Taylor	External Reporting Board (XRB)	Board member
	Kiwibank Limited	Director
	Landcare Research New Zealand Limited	Director
	New Zealand Post Limited	Director
	Ontario Teachers' New Zealand Forest Investments Limited	Director
	Predator Free 2050 Limited	Director
	Radio New Zealand Limited	Director
	Silver Fern Farms Limited and subsidiaries	Director
	Tassenberg Limited	Director
Geoff Vazey	Business Mentors New Zealand Limited and subsidaries	Director
	Consult GV Limited	Director and shareholder
	Cook Islands Port Authority	Director
	HEB Construction Limited	Director

Governance continued

Subsidiary companies

The following persons served as directors of the company's subsidiaries during the year ended 31 March 2019:

Connetics Limited	Rob Jamieson (chair), Vaughan Hartland (from 1 August 2018), Brendan Kearney, Jason McDonald (from 17 August 2018) and Geoff Vazey
Orion New Zealand Ventures Limited	Brendan Kearney

Directors' remuneration

	Orion $000	Connetics $000
John Austin	50	-
Nicola Crauford	50	-
Bruce Gemmell	56	-
Jason McDonald	48	13
Nicholas Miller	1	-
Jane Taylor	48	-
Geoff Vazey	88	20
	341	33

Nicholas Miller retired as board chair and as a director on 5 April 2018. Geoff Vazey was board chair from 6 April 2018 to 31 January 2019. Jane Taylor was appointed as a director on 1 June 2018 and became board chair on 1 February 2019.

Employee remuneration

The group aims to attract, retain, develop and motivate high calibre employees. The group's employee remuneration approach aims for consistency, fairness and alignment with the group's principal objective – to operate as a successful business. The group regularly compares employee remuneration against relevant market data. In general, the group aims to meet the market, subject to employee performance.

All individual employment agreement terms and conditions are subject to 'one-up' approval. For example, the board approves the chief executive officer's employment terms and conditions and the board remuneration committee approves those of the chief executive's direct reports. Three collective employment agreements cover approximately 36% of the group's employees.

The number of group employees and former employees, whose total remuneration fell within specified bands was:

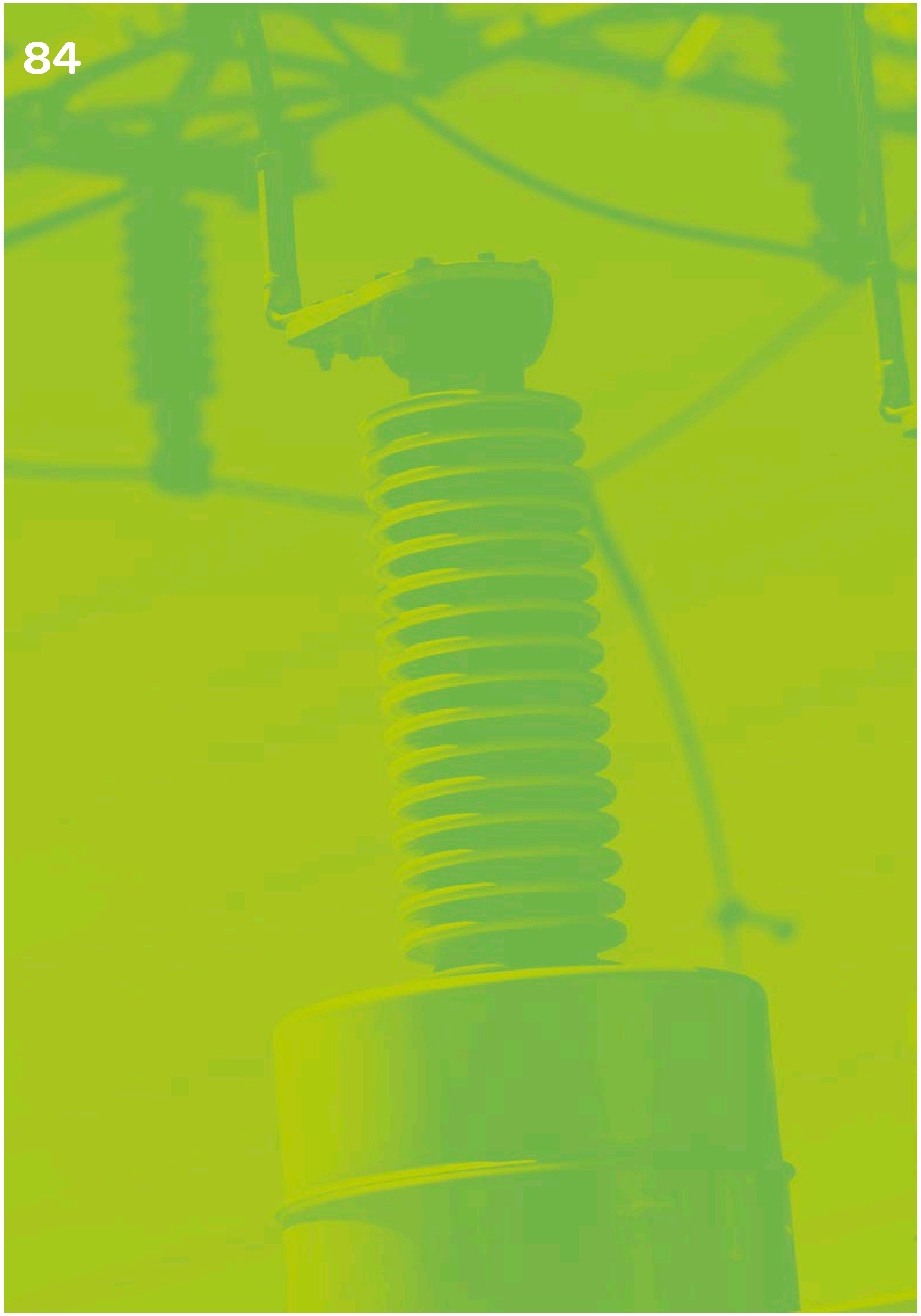
$000	2019	2018	$000	2019	2018
100 - 110	54	48	240 - 250	1	2
110 - 120	47	32	250 - 260	2	1
120 - 130	34	33	260 - 270	1	-
130 - 140	26	18	280 - 290	1	-
140 - 150	12	12	320 - 330	2	1
150 - 160	14	8	330 - 340	1	-
160 - 170	10	4	400 - 410	-	1
170 - 180	4	6	420 - 430	-	1
180 - 190	2	1	430 - 440	1	-
190 - 200	-	1	470 - 480	1	1
200 - 210	2	1	640 – 650	-	1
210 - 220	2	-	670 – 680	1	-
220 - 230	2	4			

Chief executive officer's remuneration

The board determines the chief executive officer's remuneration, after taking independent expert advice and considering relevant market data. The board reviews the chief executive officer's remuneration annually and Mr Jamieson's total remuneration was $675,000 in the year ended 31 March 2019 (2018: $645,000). Mr Jamieson's employment agreement has no deferred payment component.

Five-year trends

	2019 $m	2018 $m	2017 $m	2016 $m	2015 $m
Statement of comprehensive income					
Operating revenue	326	322	310	307	334
EBIT	81	84	80	86	116
Profit before income tax	66	74	71	74	110
Net profit	48	53	52	53	83
Other comprehensive income	-	-	16	-	-
Total comprehensive income	48	53	68	53	83
Statement of financial position					
Current assets	28	24	23	22	24
Non current assets	1,181	1,156	1,134	1,100	1,060
	1,209	1,180	1,157	1,122	1,084
Current liabilities	48	46	44	42	48
Current borrowings	1	54	37	1	2
Non current borrowings	302	221	212	227	84
Deferred tax liability	186	188	187	187	188
Other non current liabilities	6	2	4	5	2
Shareholders' equity	666	671	673	660	760
Total liabilities and shareholders' equity	1,209	1,180	1,157	1,122	1,084
Statement of cash flows					
Operating cash flows	97	109	100	103	114
Investing cash flows	(72)	(79)	(67)	(91)	(68)
Financing cash flows	(25)	(29)	(33)	(12)	(46)
Financial measures					
Dividends paid	53	55	55	63	56
Share buy-back	-	-	-	90	-
Net profit to average shareholders' equity (%)	7.2	7.9	7.8	7.5	11.1
Net interest bearing debt to debt-plus-equity (%)	31	29	27	26	10
Other measures					
Electricity maximum demand (MW)	587	633	599	618	590
Electricity deliveries into the network (GWh)	3,317	3,309	3,227	3,296	3,277
Number of customer connections (000)	204	201	198	195	191



Directory
As at 7 June 2019

Directors

Jane Taylor – chair
John Austin
Nicola Crauford
Bruce Gemmell
Jason McDonald
Geoff Vazey

Senior leadership team

Rob Jamieson
Chief Executive

Paul Deavoll
GM Customer and Stakeholder

David Freeman-Greene
GM Commercial

Vaughan Hartland
Chief Financial Officer

Brendan Kearney
GM Governance and Risk

Craig Kerr
GM Information Solutions

Steve Macdonald
GM Infrastructure

Andy Miller
GM Quality, Health, Safety and Environment

Adrienne Sykes
GM People and Capability

Orion head office

565 Wairakei Road
PO Box 13896
Christchurch 8141
New Zealand
P: + 64 3 363 9898
E: info@oriongroup.co.nz
W: oriongroup.co.nz

Auditor
Audit New Zealand, on behalf of the Auditor-General

Other sources of information

Christchurch City Council
ccc.govt.nz

Christchurch City Holdings Limited
cchl.co.nz

Selwyn District Council
selwyn.govt.nz

Photo credits

Page:	
Cover	Selwyn United Football Club, by Dean MacKenzie
4 & 5	Port Hills and Christchurch, by John Doogan
9	Orion's future customers, by Dean MacKenzie
10 & 11	Christchurch Town Hall, by Dean MacKenzie
13	Oxford Lane, by Dean MacKenzie
16 & 17	Jamie Tippet, Three Boys Brewery, by Dean MacKenzie
21	Tom Smith, Reticulation Works Manager, by Dean MacKenzie
24 & 25	some members of Orion's Customer Advisory Panel, by Dean MacKenzie
26	Christchurch suburban street, by Dean MacKenzie
28 & 29	Janet and David McGimpsey, customers, by Dean MacKenzie
30	*Nebula*, 2001, artwork by Paul Hartigan, photo by Dean MacKenzie
32	Brad Nicholson, Network Operator, by Dean MacKenzie
34	Orion team at work, by Dean MacKenzie
36 & 37	Orion Senior Leadership Team, by Dean MacKenzie
38	Orion Board of Directors, by Dean MacKenzie
80 & 81	Akaroa, by John Doogan

Connetics head office

11 Islington Avenue
PO Box 2237
Christchurch 8140
New Zealand
P: + 64 3 353 7200
E: enquiries@connetics.co.nz
W: connetics.co.nz

Orion

Orion New Zealand Limited
565 Wairakei Road

PO Box 13896
Christchurch 8141

+64 3 363 9898
oriongroup.co.nz